Report on Operations Under the Bretton Woods and Related Agreements Act

2004

Canada

Report on Operations Under the Bretton Woods and Related Agreements Act 2004

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Introduction

The Bretton Woods Institutions—the International Monetary Fund (the IMF or the Fund) and the World Bank (the Bank)[1]—were founded at a conference held at Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and support high rates of sustainable economic growth. To achieve these goals, it exercises a surveillance function by monitoring members' economic policies, provides policy advice and technical assistance, and extends short- and medium-term financial assistance to countries faced with balance of payments difficulties.

The World Bank's goal is to reduce poverty by raising living standards and promoting sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including economic policy advice and lending and technical assistance for projects that promote sustainable growth and an improved quality of life.

Canada is the eighth largest member of the IMF (as measured by quotas), tied with China, after the six other Group of Seven (G-7) countries and Saudi Arabia. Along with China, Italy, Russia, India and Saudi Arabia, Canada is the sixth largest shareholder of the World Bank. On the Executive Boards of the two institutions, Canada represents Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. On the Bank's Executive Board, Canada also represents Guyana. Canada's formal participation in the two institutions is authorized under the Bretton Woods and Related Agreements Act. Section 13 of the Act states:

> The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each calendar year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.

This report has been prepared in accordance with this provision. The sections that follow review the activities and operations of first the IMF and then the Bank for the year 2004. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's

[1] In this document "World Bank" and "Bank" refer to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). "World Bank Group" and "Bank Group" refer to the broader group of World Bank institutions that includes the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

activities. The 2004 spring and fall communiqués of the International Monetary and Financial Committee (IMFC) of the Board of Governors of the IMF and the Development Committee (DC) of the Boards of Governors of the World Bank and the IMF are also appended for information. The IMFC and DC are the key policy committees of the IMF and World Bank Boards of Governors, and their communiqués steer the policy direction of the two institutions.

Roles of the International Monetary Fund and World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary cooperation.
- Identifies financial vulnerabilities and promotes remedies to prevent financial crises.
- Promotes orderly exchange rate relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Provides support for poverty reduction through promotion of economic stability.

World Bank

- Provides support for poverty reduction in developing countries through investments in areas such as health and education.
- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprise development and private investment in developing countries primarily through its affiliates, the International Finance Corporation and the Multilateral Investment Guarantee Agency.
- Enhances the flow of capital and technology for productive purposes to developing countries by providing investment insurance against non-commercial risks for investments in developing countries.

International Monetary Fund

Overview

As a major trading nation, Canada benefits from a strong international monetary system that facilitates the free movement of goods, services and capital. The IMF promotes international financial stability and economic growth through the provision of policy advice and financial and technical assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy issues affecting the world monetary and financial system.
- The IMF, through its regular surveillance of the Canadian economy, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance, other government agencies and the Bank of Canada.
- The efforts of the IMF to make sure that countries abide by their obligations, including those under Fund-supported programs, help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of return on its financial position in the IMF.
- Were Canada to experience severe balance of payments difficulties, it would have the right to draw on IMF financial assistance.

How the IMF Works

The IMF works like a credit union. It has a large pool of liquid assets, or resources, comprising convertible national currencies, special drawing rights,[2] and other widely used international currencies provided by its members, which it makes available to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by "quotas" reflecting each country's relative importance in the world economy. A country's quota in turn helps determine the amount of Fund resources that it may use should it experience economic difficulties. At the end of 2004 the total quota for the Fund's 184 members was SDR 212.8 billion.

A member country uses the general resources of the IMF by purchasing (drawing) other members' currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members' currencies over a specified period of time, with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on four "credit tranches," each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach an agreement on a set of economic measures and reforms aimed at removing the source of the country's balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts one to two years, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility, created in December 1997.

Members can also use financial facilities created for specific purposes, including the Compensatory Financing Facility, which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Poverty Reduction and Growth Facility (formerly the Enhanced Structural Adjustment Facility) is made available in the form of low-interest loans with extended maturity periods.

[2] The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves. The SDR is also the standard unit of account for the IMF's operations. It represents a weighted basket of four major currencies: the US dollar, the Japanese yen, the pound sterling and the euro. At the end of 2004 the exchange rate was SDR 1 = C$1.87.

Canada's Priorities at the IMF

Global Economic and Financial Stability

With the globalization of economic activity, shifts in demographics, the increased interdependence of economies, and the growth and stronger dependence on capital markets, the world economy has changed significantly since the Fund was founded 60 years ago. For this reason, the IMF has been engaged over the past several years in a process of reform aimed at making the Fund more effective in promoting greater financial stability and helping countries benefit from the opportunities of global economic integration.

In cooperation with its international partners, Canada has played an active role in identifying areas where reforms are required and taking steps to implement those reforms. To enhance the Fund's effectiveness, reforms have focused on six main areas:

- improving transparency, accountability and openness;
- strengthening surveillance and crisis prevention;
- enhancing crisis resolution;
- improving the effectiveness of IMF lending;
- safeguarding the IMF's cooperative nature; and
- strengthening support for low-income countries.

In response, the Fund has adapted its key instruments—surveillance, lending and technical assistance. Despite the progress achieved, the IMF's new Managing Director, Rodrigo de Rato, has initiated discussions on the strategic directions of the Fund to help shape the evolution of its role in the international economic system over the longer term. While the Fund's core mandate remains relevant, it is useful to assess whether its way of doing business needs to change to deal effectively with the new challenges posed by changes in the global economy and financial markets.

Looking forward, a key objective for Canada is to ensure that the Fund has the tools to promote international financial stability. To meet this objective, Canada supports:

- strengthening surveillance to prevent crises through greater attention to financial vulnerabilities and increased transparency of information;
- improving the institutional capacity of countries to support strong macroeconomic frameworks and more resilient financial systems;
- enhancing crisis resolution;
- improving IMF lending to promote economic reform; and
- strengthening governance and accountability of the IMF and its members.

Canada continues to place a high priority on strengthening support for low-income countries. The IMF plays a crucial role in supporting macroeconomic stability as a key tool for poverty reduction in the poorest countries and is integrating its efforts with those of the World Bank.

The Fund's involvement in the key areas outlined above, and Canada's priorities related to these efforts, are described in more detail in the section entitled "Efforts to Promote International Financial Stability," which follows the next section.

Economic and Financial Developments in Emerging Markets

Financial conditions in most emerging markets continued to improve in 2004. JP Morgan's Emerging Market Bond Index, which measures the yield spread between emerging market debt and comparable US Treasuries, narrowed steadily over the year, reaching historical lows by the end of the year. This significantly reduced external debt-service costs for many emerging market economies and enabled some to regain access to external sources of finance. Nevertheless, much remains to be done to reduce public debt levels to more sustainable levels and restore fiscal discipline in emerging markets. The IMF has outlined a number of structural rigidities in emerging market public finances, notably the earmarking of public funds, poor tax administration and a culture of tax evasion. A sudden reversal of private capital flows to some emerging market countries, which could be triggered by a faster-than-expected increase in US interest rates, could give rise to liquidity or solvency problems in countries with heavier financing requirements.

At 26 per cent of total credit outstanding, **Brazil** is the IMF's largest borrower. Brazil's economic prospects improved drastically in 2004: real gross domestic product (GDP) growth rose 6.1 per cent in the third quarter of 2004, the fastest growth in eight years, and is expected to have been 5 per cent for the year as a whole. Brazil's 2004 growth was broadly based, with investment rising an expected 11.5 per cent and the current account surplus rising to 2 per cent of GDP. Faster growth and the strengthening of its currency improved Brazil's debt dynamics and reduced vulnerabilities. In 2004 the government ran a primary surplus of 4.5 per cent of GDP and the public debt fell to 51 per cent (from 57 per cent in 2003); Brazil accumulated US$3.6 billion in reserves and reduced its external debt to 35.5 per cent of GDP (from 46.5 per cent in 2003). Inflation remains a concern, however, as the central bank has had to hike interest rates to combat rising inflation expectations.

Economic and financial developments in **Turkey**, the IMF's second largest borrower with 25 per cent of total credit outstanding, continued to improve in 2004. Real GDP growth is estimated to have reached 9.0 per cent on the year, almost doubling the original 5-per-cent target set out in Turkey's IMF program. Inflation reduction has also been a major success of the 2002–2005 program, as inflation targets have been significantly undershot for the past three years. Turkey's year-end inflation declined to 9.3 per cent in 2004, its lowest level since 1975 and substantially below the initial 12-per-cent year-end IMF-backed target. However, a by-product of Turkey's strong economic growth has been a widening of the current account deficit, which is estimated

to have reached some 5 per cent of GDP in 2004, and is expected to narrow only marginally in 2005. These deficits are being financed by sizeable short-term and partly speculative flows that leave the balance of payments exposed to shocks and possible rises in global interest rates.

Economic expansion in **Argentina**, the IMF's third largest borrower with 14.5 per cent of total outstanding credit, also continued in 2004. Real GDP growth is expected to have been 8.5 per cent, down slightly from 8.8 per cent in 2003. On the demand side, strong fixed investment has been the lynchpin of growth. Strong real GDP growth has also enabled the government to boost its tax revenues significantly and increase the primary surplus to 4.4 per cent of GDP. Argentina's strong performance, however, is in part due to the fact that it has not been servicing its defaulted external debt and US$20 billion in interest has accumulated since December 2001. Indeed, Argentina's recovery may be vulnerable: Argentina's banking system needs to be recapitalized and the defaulted debt must be restructured to put Argentina's total debt onto a sustainable path. The IMF program is on hiatus and will not be restarted until the restructuring is complete and Argentina meets the "prior conditions" (i.e. fiscal reform and banking sector compensation) required by the IMF to pass the Third Review.

IMF Programs for Emerging Economies

	Brazil	Turkey	Argentina
Total amount of credit outstanding to the IMF (as of December 31, 2004)			
(US$ billions)	24.5	21.1	13.8
(% of quota)	531%	1,437%	429%

Efforts to Promote International Financial Stability: Strengthening Surveillance and Crisis Prevention

Making Surveillance More Effective

Through its surveillance role, the IMF monitors economic and financial developments and policies in member countries and at the global level. Fund surveillance is critical, as it can identify emerging problems and policy imbalances before they become crises. Improved surveillance at the IMF—leading to better information for sound economic analysis, including better pricing of risk, which leads to more stable capital flows—is central to crisis prevention.

The Fund has made considerable progress in strengthening its surveillance operations, especially by promoting enhanced transparency in member countries and improving its analytical tools for the early identification of a country's vulnerability to crisis. However, the surveillance function needs to continue to evolve in light of changes in the world economy. In April 2004, the International Monetary and Financial Committee of the IMF's Board of Governors called for further efforts to enhance the focus, quality, persuasiveness, impact and overall effectiveness of surveillance.

With this in mind, the Fund's 2004 biennial review of the implementation of surveillance focused on how to make surveillance more effective across the whole membership. Canada endorsed the key conclusions of the review: the need for a sharper focus on the Fund's core areas of expertise, clearer and more candid treatment of exchange rate issues, enhanced financial sector coverage and better regional assessments. As well, the Fund's debt sustainability assessments would be enhanced if they were conducted independently of regular country analysis.

Improving Transparency, Accountability and Openness

Canada supports measures to enhance the transparency and accountability of the Fund's own operations. This reflects the view that the IMF's effectiveness depends in part on its ability to be transparent and fair in the provision of policy advice to its members, accountable for its advice and lending decisions, and open to external input and dialogue.

The publication rate for country staff reports is now more than 75 per cent and almost all Fund policy papers are now released. A policy of presumed publication for all Article IV staff reports took effect in July 2004. A review of the Fund's transparency policy is planned for mid-2005.

IMF Transparency

The IMF has adopted a series of measures in recent years to improve transparency, including guidelines under which the Fund now publishes most of its own policy papers as well as detailed information about its operations and finances. The key initiatives and recent developments include the following:

- Publishing more information about IMF surveillance of members, including Public Information Notices (PINs), which provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular Article IV consultations. Over 80 per cent of IMF member countries have agreed to the publication of PINs. The Fund has also adopted a policy establishing a presumption of publication of Article IV reports. Canada's most recent PIN and Article IV report can be found on the IMF Web site at www.imf.org/external/country/can/index.htm.
- Encouraging countries to publish the "mission statements" that are prepared at the time of the IMF's annual Article IV consultations with member countries. Prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides a country's authorities with a statement of its preliminary findings at the conclusion of its bilateral discussions. A number of countries, including Canada, now release these statements. Canada's most recent mission statement can be found on the IMF Web site at www.imf.org/external/country/can/index.htm.
- Releasing more information about countries' IMF-supported programs and the Executive Board reviews of these programs. The Fund has adopted a policy establishing a presumption of publication of Letters of Intent and other documents that underpin Fund-supported programs. Nearly all policy intention documents of countries requesting Fund financial assistance are published, and three-quarters of staff reports on Article IV consultations and reports on the use of Fund resources are published. The publication of staff reports on the use of Fund resources in exceptional access cases would generally be a precondition for management to recommend approval or augmentation of a financing arrangement or completion of a review by the Executive Board.
- Publishing staff papers on key policy issues and issuing PINs of the Board discussions of these papers. In addition, the Fund is increasingly posting draft papers on important policy issues on its Web site so that the views of civil society can be taken into account. As well, more financial information is being released about the IMF, including the sources of its financing for its lending (the quarterly financial transactions plan).
- Providing the public with substantially expanded access to the Fund's archival material.

The Fund is also working to deepen its understanding of international capital markets and financial flows. In 2001 it established the International Capital Markets Department in order to enhance its ability to identify crises early enough to address them effectively. This department is also strengthening the Fund's ability to help countries gain access to international capital markets, an important step in helping the poorest countries make a breakthrough in poverty reduction. The department's research is summarized quarterly in a new publication, the *Global Financial Stability Report*. In addition, the Capital Markets Consultative Group was established to promote a better dialogue between member countries and private investors and creditors.

With respect to accountability and openness, the IMF established the Independent Evaluation Office (IEO) in 2001 to undertake objective assessments of the IMF's operations, policies and programs. The IEO operates independently of IMF management and at arm's length from the Fund's Executive Board.

- The IEO's work program is developed following extensive consultations with government authorities, non-governmental organizations (NGOs), members of the academic community and representatives of the financial sector, as well as the staff, management and Executive Board of the IMF.
- The IEO consults extensively with external stakeholders in deriving the detailed terms of reference for each study and provides further opportunities to comment when the completed evaluation reports are made public.
- Since it was established, the IEO has played a key role in providing independent assessments of Fund surveillance, program design and lending operations. The IEO completed two more evaluations in 2004: (i) experience with Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility and (ii) the IMF's role in Argentina, 1991–2001. The Executive Board discussed the two reports in July 2004. These reports have provided management, staff and the Executive Board with ways to strengthen the Fund's crisis prevention and poverty reduction efforts. The IEO's evaluation of IMF technical assistance will be completed and presented to the Executive Board in early 2005.
- The IEO released its second annual report in December 2004, which reviews its recent reports and discusses the status of ongoing evaluations (available on its Web site at www.imf.org/ieo). In 2005 the IEO will undertake evaluations of the Fund's financial sector work, its approach to capital account liberalization, and the role of multilateral surveillance.

IEO Evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)

In 1999, the IMF and the World Bank adopted a new approach to supporting low-income countries to strengthen country ownership and enhance the poverty focus of programs. The IEO report found that while the initiative has resulted in improvements, its implementation has fallen short of its potential. The report identified a need to shift incentives more towards improving underlying domestic policy-making processes and institutions and away from the production of documents. In reviewing the report, the Fund's Executive Board agreed that the PRSP approach has yielded benefits, but observed that it was perceived to be externally driven and that participation has sometimes been narrow, especially in the formulation of the macroeconomic framework underlying PRSPs.

The report found that while PRGF-supported programs are increasingly being aligned with PRSPs and the design of PRGF programs has improved, major challenges remain, such as basing Fund-supported programs on a full understanding of micro-macro linkages that are crucial to understanding sources of growth. The Executive Board thought more should be done to integrate the results of poverty and social impact analysis into program design. Work is underway at the Fund to follow up on the report's recommendations.

Strengthening Institutional Capacity

The Fund is also working with other members of the international community on initiatives designed to improve the institutional capacity of countries to support strong macroeconomic frameworks and more resilient financial systems. These initiatives, which complement the Fund's surveillance framework, include work on standards and codes, data provision, strengthening financial sectors, and technical assistance.

Implementation and Assessment of International Codes and Standards

To help improve economic policy-making and strengthen the international financial system, the international community has called upon the IMF and other standard-setting agencies to develop standards and codes covering a wide range of economic and financial areas. In this effort, the Fund is responsible for its core areas of expertise. To date the Fund has adopted a data dissemination standard, a code on fiscal transparency and a similar code with respect to monetary and financial policies.

Implementation is being encouraged in part through the provision of targeted technical assistance in accordance with countries' domestic priorities and circumstances.

The IMF has a key coordinating role in assessing observance of codes and standards through its Reports on the Observance of Standards and Codes (ROSCs), as well as through the joint IMF–World Bank Financial Sector Assessment Program (FSAP). Additional developments regarding FSAPs are covered in the following section, "Strengthening Financial Sectors."

The Fund has developed a modular approach to ROSCs whereby comprehensive assessments of members' adherence to a range of internationally recognized standards can be built up over time, standard by standard. ROSCs summarize the extent to which countries observe these standards, focusing primarily on the areas of direct operational concern to the IMF, such as data dissemination and fiscal transparency. ROSC modules for the financial sector are now being derived as a by-product of the FSAP process. Canada was the first country to publicly release as a ROSC the assessment of compliance with international standards conducted during its FSAP. Canada has undertaken ROSCs in the areas of banking and insurance supervision, fiscal policy transparency, monetary and financial policy transparency, payments systems and securities regulation. Additionally, Canada completed a data ROSC in October 2003. Canada's ROSCs can be found on the IMF Web site at www.imf.org/external/np/rosc/rosc.asp#c. Overall, over two-thirds of the IMF's 184 member countries have completed or committed to at least one ROSC module.

After a review of the experience with the FSAP, the IMF and World Bank agreed to extend the FSAP and expand the coverage to up to 24 countries per year. Over 100 of the IMF's 184 members have either participated in the FSAP or have volunteered to do so in the near future. Joint Fund-Bank reviews of the ROSC and the FSAP are scheduled for the spring of 2005. Also, the IEO is scheduled to conduct an evaluation of the FSAP in late 2005.

Strengthening Financial Sectors

In addition to its work on financial sectors noted above, the IMF is involved in international efforts on financial abuses that threaten the integrity and stability of the international financial system. In particular, the Fund has:

- expanded its anti-money laundering work, including through FSAPs, to cover legal and institutional frameworks;
- extended its involvement beyond anti-money laundering to efforts aimed at countering terrorist financing;
- accelerated its program of offshore financial centres (OFCs) and undertaken onshore assessments in the context of the FSAP;
- enhanced its collaboration with the Financial Action Task Force (FATF) to develop a mutually acceptable global standard on anti-money laundering; and
- intensified its provision of technical assistance to enable members to implement the agreed-upon international standards and extended it to include help for the creation of financial intelligence units.

In November 2002 the Fund:

- added the FATF recommendations on anti-money laundering and combatting the financing of terrorism to the list of standards and codes for which ROSCs are undertaken in the context of the IMF-World Bank FSAP framework;
- approved a 12-month pilot project of anti-money laundering and terrorist financing assessments and accompanying ROSCs to be undertaken by the IMF, World Bank and other bodies; and
- adopted a comprehensive assessment methodology developed in collaboration with the World Bank and the FATF.

In April 2004 the Fund reviewed the 12-month pilot program of anti-money laundering/combatting the financing of terrorism assessments and adopted proposals to make such assessments a permanent part of the IMF's surveillance activities in the context of FSAPs and OFC assessments. The Fund also endorsed the revised FATF recommendations as the new standard for ROSCs and a revised methodology to assess that standard. Under the revised standard, 30 to 40 assessments are expected to be conducted annually, of which the IMF and World Bank will conduct about half and the FATF and other bodies the remainder.

OFC assessments for 40 jurisdictions have been conducted or are underway. Updates will be conducted within four to five years, with interim risk-focused assessments as needed. To help provide technical assistance in the Caribbean region, the Fund, in close collaboration with Canada, established the Caribbean Regional Technical Assistance Centre (CARTAC), which became operational in September 2001. Canada is the largest single donor to CARTAC, which is designed to strengthen the region's technical capability in financial sector regulation and supervision, tax administration and other areas.

Technical Assistance

In addition to its policy advice and financing, the IMF provides technical assistance to member countries in its areas of expertise—including macroeconomic policy, monetary and foreign exchange policy and systems, fiscal policy management, external debt and macroeconomic statistics. It has been agreed that technical assistance should play a central role in supporting the work of the IMF in crisis prevention and management, debt relief and poverty reduction, and capacity building in low-income and transition countries.

Since the demand for IMF technical assistance normally exceeds the resources available, the IMF takes a number of considerations into account in setting priorities for country requests. Under guidelines approved in 2001, priorities for technical assistance are set in accordance with the IMF's core areas of specialization, its main program areas and its key policy initiatives, which enables a more systematic alignment of resource commitments with institutional priorities. At a March 2004 review the Fund's Executive Board emphasized the essential contribution of IMF technical assistance in helping low-income countries and countries emerging from conflict situations, in particular in laying the capacity, institutional and governance foundations for sustained growth and poverty reduction.

In recent years the IMF has adopted a regional approach to the delivery of technical assistance and training. The IMF opened a fifth regional technical assistance centre, the Middle East Technical Assistance Center (METAC), in Beirut, Lebanon, in October 2004. This centre complements those already in place in Africa (East and West), the Pacific and the Caribbean. Canada is a major financial contributor to both the Caribbean technical assistance (CARTAC) and African technical assistance (AFRITAC) programs.

In Afghanistan, the role of the IMF has been to provide policy advice and technical assistance in establishing a sound foundation for macroeconomic management and stability. The Fund has provided specialized assistance in areas such as customs administration, tax policy and administration, anti-money laundering and fiscal revenue legislation, and the strengthening of statistical capacity.

In Iraq, the Fund has been providing technical expertise to help create a stable macroeconomic environment and rebuild Iraq's economic and financial infrastructure. The Fund worked with Iraqi officials and the Coalition Provisional Authority to prepare an external debt sustainability analysis (DSA). This DSA informed negotiations among the Paris Club of creditors (of which Canada is a member) to provide Iraq with debt forgiveness.

The Fund has also established a donor-sponsored technical assistance (TA) subaccount, and is a member of the International Advisory and Monitoring Board, which oversees the work of the auditors of the Development Fund for Iraq. Canada is a key donor in the IMF's TA subaccount for Iraq, which is focused on rebuilding the institutional macroeconomic capacity in the country.

The IMF's TA program, which is being implemented through seminars outside Iraq because of security concerns, includes training in the areas of public expenditure management, tax policy and administration; central bank organization, accounting procedures and financial reporting, banking supervision, support for the banknote exchange program, and payments system reform; joint training on macroeconomic policies by the IMF Institute and the Arab Monetary Fund; and a series of statistics missions.

Finally, the IMF also plays a coordinating role in the TA efforts of other providers (at their request) in macroeconomic policy areas, in particular with the World Bank, U.S. Department of the Treasury, U.S. Agency for International Development (USAID), UK Department for International Development, and the Bank of England.

Enhancing Crisis Resolution

One of the IMF's primary goals is to reduce the frequency and severity of international financial crises. Despite its crisis prevention efforts, however, financial crises will still occur. The IMF is therefore engaged in the search for possible reforms to improve its capacity to manage and resolve financial crises. Canada welcomes ongoing efforts to advance crisis resolution initiatives, as these efforts will ultimately promote a stronger, more stable and more efficient international financial system.

Implementing the New Access Policy Framework

In 2002 the Fund established clearer rules and procedures for determining exceptional access to its resources (i.e. loans that are larger than what would be normally allowed under IMF lending rules) for countries that face financial crises. Canada supports strict adherence to these criteria to help shape the expectations of members and markets alike, to provide a benchmark for decisions regarding program design and access, to safeguard the integrity of the IMF's resources and to ensure uniform treatment of members. In addition, the procedures for consideration of exceptional access requests should be further strengthened by taking alternative forecasts into account and by giving timely and careful consideration to the financial implications that these exceptional access decisions will have for the Fund.

Exceptional Access Policy Criteria and Procedures

In September 2002 the IMF's Executive Board endorsed the following criteria that, at a minimum, would need to be met to justify exceptional access to IMF resources for member countries facing a capital account crisis:

- the member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within normal limits;
- a rigorous analysis indicates a high probability that the debt will remain sustainable;
- the member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that IMF financing would provide a bridge; and
- the policy program of the member country provides a reasonably strong prospect of success, based on both the member's adjustment plans and its institutional and political capacity to implement that program.

The Board also expressed support for strengthening procedures for decision making on exceptional access proposals, including:

- increasing the burden of proof required in program documents by requiring more extensive justification of the level of access, a rigorous analysis of debt sustainability, and an assessment of the risks to the IMF arising from the exposure and the effect on the IMF's liquidity position;
- formalizing early Executive Board consultation on the status of negotiations in exceptional access cases; and
- requiring *ex post* evaluation of programs of exceptional access.

Promoting the Adoption of Collective Action Clauses

One of the impediments to successful restructurings of sovereign debt in emerging market financial crises has been the sheer number of creditors involved and the difficulties they face in coordinating and communicating amongst themselves. Collective action clauses are an effective crisis prevention and resolution mechanism, as they facilitate more timely and orderly restructurings of sovereign debt. They do so by providing for a mechanism for creditors as a whole to delegate negotiations to a sub-group of lenders, with voting on the restructuring offer in such a way that the majority decision is binding on all creditors. The IMF is continuing to promote the inclusion of collective action clauses in international sovereign bond contracts in jurisdictions where they are not yet market standard by holding an active dialogue with emerging market issuers and private sector participants. Significant progress has been made in this area, with a number of emerging market borrowers, such as Mexico, Korea and Uruguay, adopting collective action clauses in their recent bond issues. The widespread adoption of collective action clauses in sovereign bond contracts is an important

development in promoting the orderly resolution of financial crises, but further work is required on aggregation, creditor coordination and other issues related to sovereign debt restructurings.

Assessing the Possible Role of a Voluntary Code of Conduct

The private sector and a group of emerging market economies have drafted a voluntary code of conduct to guide sovereign debtors and their creditors in the restructuring of sovereign debt. While refinements will likely be made to this draft code over time, it does provide a broad framework for improving the international community's crisis management efforts and should help guide overall relations between sovereign debtors and their private sector creditors. The IMF is also continuing to look for ways to improve its crisis resolution efforts by maintaining an active dialogue with private market participants and debt managers and reviewing the implementation of its lending into arrears policy.

Improving IMF Lending

A major focus recently has been to examine how resources can be used more efficiently to meet the needs of member countries in promoting economic reform. To that end, the IMF has adopted new guidelines on the conditions attached to its loans and streamlined the structure of its lending facilities.

Focusing Conditionality and Fostering Ownership

An important feature of IMF arrangements is the "conditionality" that borrowing countries undertake to correct their underlying balance of payments problems and restore their ability to repay the Fund. Over time conditionality had broadened in scope and become more complex, leading to concerns about its impact and effectiveness. In the fall of 2002 the IMF approved new guidelines on the design and implementation of conditionality in Fund-supported programs.

The new guidelines are aimed at streamlining and focusing conditionality in areas of IMF core competencies in order to enhance the effectiveness of Fund-supported programs and promote national ownership of reforms. They emphasize the need to focus conditionality on policies that are critical to achieving the macroeconomic objectives of programs. The guidelines are based on several interrelated principles, including national ownership of reform programs, parsimony in the application of program-related conditions, effective coordination with other multilateral institutions, and clarity in the specification of program conditions.

Conditions will normally consist of macroeconomic and structural measures that are within the Fund's core areas of responsibility. Where structural reforms that are critical to a program's success lie outside the Fund's core areas, the Fund should work with the World Bank and other international financial institutions, which have a comparative advantage in the design and monitoring

of these measures. A key aspect is that the country should take primary responsibility for its own policies and that conditionality, if well designed and established through a mutually acceptable process led by the member, can strengthen and promote ownership. The IMF has observed that implementation of the new guidelines is leading to changes in the scope and design of Fund programs—structural conditionality is more focused on the Fund's core areas of competence and the average number of structural conditions has declined.

In 2005 the Fund will review the experience with the design and effectiveness of Fund-supported programs and the application of the 2002 conditionality guidelines.

Trade and Development

In October the International Monetary and Financial Committee supported the IMF's continued role in advocating trade liberalization, including through a successful conclusion of the Doha Round trade negotiations. Earlier in the year, the Fund introduced the Trade Integration Mechanism (TIM) to help member countries meet balance of payments shortfalls that might result from multilateral trade liberalization. The TIM is a policy designed to increase the predictability of resources that are available under existing facilities. Bangladesh was the first country to benefit from assistance in accordance with the TIM, through augmentation of access to IMF resources under its Poverty Reduction and Growth Facility arrangement.

Signalling Mechanisms

The IMF has had preliminary discussions on whether there are gaps in the Fund's range of instruments and policies. For some IMF members it would be useful if the Fund could provide high-frequency policy monitoring and signalling outside of formal Fund financial arrangements. Canada is of the view that there is a role for a mechanism that demonstrates the strength of a country's economic policies either for domestic purposes or as a signal to creditors and donors, but where there is no need or desire for Fund financing. Canada has advocated the creation of a country-led, surveillance-intensified mechanism, and in the fall of 2004 IMF staff proposed a Policy Monitoring Arrangement that stresses many of the same features. The Fund's Executive Board will continue its discussions of signalling issues and report to the International Monetary and Financial Committee in the spring of 2005.

Safeguarding the IMF's Cooperative Nature

The IMF's cooperative nature is reflected in its resource base, which is derived primarily from the quota subscriptions of member countries, and the consensus-based nature of its decision-making process. If the Fund is to promote international financial stability effectively, it must have adequate resources and ensure that its quota structure and governance arrangements are representative of the membership.

Quota Resources

Quota reviews are held every five years to assess the adequacy of IMF resources. The Twelfth Quota Review was concluded in January 2003, but the broad support necessary for a quota increase did not emerge. It was agreed during the Thirteenth Quota Review period (January 2003–January 2008) to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy, and to consider measures to strengthen the governance of the Fund. The International Monetary and Financial Committee noted in October 2004 that the Fund's liquidity position was adequate to meet the near-term projected needs of members. The Committee encouraged the Fund to continue its consideration of issues of voice, quotas and participation, while noting that progress would require broad consensus among the shareholders. World Bank/IMF measures to enhance developing country voice are covered more extensively in the "Joint Issues" section.

IMF Lending Capacity

Better information on the activities of the IMF enhances the transparency and accountability of the institution. To provide a clearer understanding of the amount of its regular financing resources that is available for new lending, in December 2002 the IMF adopted a new method of measuring its liquidity. The new measure—the one-year forward commitment capacity—indicates the amount of quota-based and non-concessional resources available for lending to member countries.

The one-year forward capacity reflects the IMF's stock of usable resources minus undrawn balances for current lending arrangements, plus projected repayments by IMF borrowers over the coming 12 months. A prudential balance—to safeguard the liquidity of creditors' claims and to take account of a potential erosion of the resource base—is also deducted to arrive at the final forward commitment amount. At the end of 2004 the IMF's one-year forward commitment capacity amounted to SDR 72 billion (US$112 billion).

Management Practices

To keep pace with a changing global economy, the Fund requires a structure that is accountable with a modern management focus to help it deliver effective results supportive of its role. Canada supports efforts by the Fund to strengthen the linkage between strategies and budgets. In this respect, the Fund is reforming its budgetary framework. The Executive Board has endorsed a new approach to enhance the budget's strategic focus and support prioritization. For new initiatives, the Fund will seek the required resources through reprioritization or from efficiency savings. A new medium-term budget framework will set out the overall resource envelope and allocation of resources to specified outputs. Annual budgets will be prepared in terms of outputs, and performance indicators will be developed and incorporated. A review of the Fund's employment structure, compensation and benefits has also been initiated and is expected to be completed by the end of 2005.

How to Access Information at the IMF

A vast array of Fund information—including fact sheets, press releases, speeches, the *IMF Survey*, annual reports, world economic outlooks, staff country reports and working papers—is available on the Fund's Web site at www.imf.org. In addition, the IMF's Publications Services provides a wide variety of Fund documents on the policies and operations of the IMF, as well as world financial and economic developments:

- IMF annual reports
- *World Economic Outlook*
- *Global Financial Stability Report*
- IMF staff country reports
- *International Financial Statistics*
- *Annual Report on Exchange Arrangements and Exchange Restrictions*
- press releases
- *IMF Survey*
- publications of the Independent Evaluation Office

Publications Services is located at 700 – 19th Street N.W., Washington, DC 20431, USA. Phone: (202) 623-7430; fax: (202) 623-7201. Internet e-mail address: publications@imf.org.

Strengthening Support for Low-Income Countries

The IMF is fully committed to supporting low-income members in advancing towards the United Nations Millennium Development Goals through its poverty reduction and debt relief efforts. Canada places a high priority on reducing poverty and ensuring that debt relief goes to the poorest, most heavily indebted countries committed to good governance. Although the World Bank is the central institution for poverty reduction, the IMF plays a role in promoting macroeconomic stability—a key condition for achieving poverty reduction and growth. Direct anti-poverty measures are playing a central role in programs supported by the IMF through its Poverty Reduction and Growth Facility (PRGF). These programs are consistent with a comprehensive, nationally owned Poverty Reduction Strategy Paper prepared by the borrowing country, and are based on a process involving the participation of civil society, NGOs, donors and international institutions.

In September 2004 the International Monetary and Financial Committee reiterated the important role of the IMF in supporting the efforts of low-income countries to achieve the macroeconomic stability and high growth needed to make progress towards the Millennium Development Goals. The Fund will continue its work on the financing and modalities of the IMF's engagement with low-income countries, including the financing of the PRGF after 2006 to maintain adequate capacity to meet future needs, instruments to help members face shocks, and ways to improve monitoring and signalling.

The Committee supported continued efforts to strengthen the poverty reduction strategy approach and IMF support for low-income countries under the PRGF. The Committee looked forward to the work on improving the role of the Fund in the poverty reduction strategy process and on the design of policy programs supported by the PRGF. It called for increased incorporation of poverty and social impact analysis into PRGF-supported programs. Joint IMF/World Bank preparation of the debt relief initiative for heavily indebted poor countries and joint work on a new long-term debt sustainability framework for low-income countries are examined in the "Joint Issues" section.

The IMF reacted quickly to the Asian tsunami disaster of December 2004. Drawing on its expertise, the IMF provided advice and technical assistance to assess the macroeconomic impact and budgetary and balance of payments needs related to the disaster. To support recovery, the Fund will also provide financial assistance, primarily through its emergency assistance facility, which can quickly make available sizeable funds without an IMF program. The IMF estimated that its financing could be in the order of US$1 billion for the most affected countries. In January 2005 the Executive Board approved modifications to the emergency assistance facility to allow for funds to be provided under this facility to low-income countries at a subsidized interest rate, with the subsidy element financed through donor resources.

Lending Developments in 2004

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, as well as the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 2004 the IMF had lending arrangements worth SDR 58.7 billion in place for 47 member countries (see Annex 1). Drawings under lending commitments decreased significantly in 2004 from the very high levels of 2003 to SDR 5.0 billion. As repayments exceeded disbursements, non-concessional credit outstanding declined to SDR 55.4 billion in 2004. The bulk of the non-concessional lending took place under Stand-By Arrangements, with Argentina and Turkey receiving the largest disbursements. The IMF approved 6 new Stand-By Arrangements in 2004. Of the current 14 Stand-By Arrangements, 7 are being treated as precautionary, with borrowers having indicated that they do not intend to draw on the funds committed to them.

The IMF also provides emergency assistance to help member countries with urgent balance of payments financing needs in the wake of natural disasters or armed conflicts. In 2004 SDR 306 million in emergency assistance loans

was provided to countries in post-conflict situations and for natural disaster relief. For post-conflict low-income countries, the interest rate on IMF loans is subsidized down to 0.5 per cent per year, with the interest subsidies financed by grant contributions from bilateral donors. Canada is the third largest contributor of post-conflict subsidies.

Table 1
IMF Resource Flows

	2003	2004
	(in SDR billions)	
Total purchases	21.1	5.0
Of which:		
Stand-By Arrangements	18.7	3.7
Post-Conflict/Natural Disaster	–	0.3
Extended Fund Facility	1.6	0.2
Poverty Reduction and Growth Facility	0.8	0.8
Total repurchases	19.7	14.7
Net purchases	1.4	- 9.7

Lending decreased under the IMF's concessional facility, the Poverty Reduction and Growth Facility (PRGF). About 40 per cent of PRGF-eligible countries had PRGF arrangements in 2004, with seven new arrangements approved during the year.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the International Monetary and Financial Committee, his plenary speech at the IMF and World Bank annual meetings, and periodic meetings with the Managing Director of the Fund (the Minister's speeches are available on the Department of Finance Web site at www.fin.gc.ca). The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the Fund's spring and fall meetings.

The management of Canada's interests in the ongoing work of the IMF is the responsibility of the Executive Director, Kevin G. Lynch, Canada's representative on the Executive Board. Elected in October 2004 by constituency Governors, he is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries), which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 are from industrialized countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance coordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also provides advice on IMF issues to Canada's Executive Director. Other involved government organizations include Foreign Affairs Canada and the Canadian International Development Agency. Within the Department of Finance, the International Trade and Finance Branch is responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board. The Department and Canada's Executive Director's office also work closely with Canada's World Bank Executive Director's office and meet regularly with Canadian NGOs.

Parliament is informed of the activities and operations of the Bretton Woods Institutions through the tabling of an annual report on their operations and through appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. But in 2004 Canada abstained on increases in the remuneration of IMF Executive Directors and the salary of the IMF Managing Director.

Canadian Executive Director's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by two Canadian senior advisors and two advisors, one of whom rotates with other members of the constituency. Ireland staffs the Alternate Executive Director's position and the Caribbean countries staff a third senior advisor's position.

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board's discussions on a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Members of the Executive Director's Office

Executive Director	Kevin G. Lynch (Canada)
Alternate Executive Director	Charles O'Loghlin (Ireland)
Senior Advisor	Paul Jenkins (Canada)
Senior Advisor	Richard Campbell (Caribbean)
Senior Advisor	Mark Kruger (Canada)
Advisor	Chris Faircloth (Canada)
Advisor	Charleen Adam Gust (Canada)
Administrative Assistant	Catherine Byrne (Ireland)
Administrative Assistant	Liz Craib (Canada)
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Address	11-112, 700 – 19th Street N.W., Washington, DC 20431, USA klynch@imf.org cbyrne@imf.org

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 6,369.2 million, or about 3 per cent of total quotas. Canada's quota subscription is a government asset, which is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is recorded as a non-budgetary expenditure in the budget of the Canadian government.

Only a very small portion of the Canadian dollar part of Canada's subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e. is drawn by other member countries. In 2004 Canada received SDR 34.8 million on its net creditor position in the IMF. The net income from Canada's net creditor position with the Fund is paid into the Government of Canada's Exchange Fund Account, adding to the foreign exchange reserves.

Table 2
Canada's Financial Position in the IMF

	December 31, 2004	December 31, 2003
	(in SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars	4,219.6*	3,780.3*
Reserve position in the Fund	2,149.6**	2,588.9**

* In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

**This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow and New Arrangements to Borrow. As the name suggests, Canada's reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of 2004 Canada's holdings of SDRs amounted to SDR 595.2 million, or 76.4 per cent of Canada's cumulative allocation of SDRs. In 2004 Canada held SDRs in an amount below its allocation, and so paid net interest of SDR 3.5 million.[3]

In 2004, in line with earlier commitments, Canada made further contributions to the IMF's Poverty Reduction and Growth Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's total commitment to the Poverty Reduction and Growth Facility is a loan of SDR 700 million and a grant of approximately SDR 190 million. At the end of 2004 loan payments under these arrangements totalled SDR 648.5 million of the SDR 700 million, and subsidy contributions equalled SDR 186.1 million of the SDR 190 million. In 2004 Canada received SDR 9.1 million in interest earned on loans to the Poverty Reduction and Growth Facility.

Further, Canada is a participant in a financing arrangement established to supplement the Fund's regular resources in the event of financial crises, the New Arrangements to Borrow (NAB), which was not activated in 2004. Canada is also a participant in the General Arrangements to Borrow (GAB), an earlier credit arrangement established by the Group of Ten (G-10). Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 2004.

[3] When a member's holdings of SDRs are greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

New Arrangements to Borrow (NAB)

The following are the main features of the NAB, which came into force in 1998:

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C$65 billion) to the Fund in case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the GAB, which remains in force. However, the NAB would be the first and principal recourse of the IMF if supplementary resources were needed.

Challenges Ahead

A key challenge for the Fund is to ensure that it meets the needs of an increasingly integrated global economic system. The evolution of the Fund's place in the international financial system must continue to reflect changes in the world economy. In particular, there is a need to assess the role of the Fund in a world of large-scale private capital flows. To meet these challenges:

- The Fund should complete its discussions on its strategic directions to help shape its role in the international economic system over the medium and longer term, and work to ensure that its management practices support its objectives and that it has the necessary tools to fulfil its mandate.
- The Fund needs to clarify its role in middle-income countries, especially with respect to preventing and resolving capital account crises.
- The Fund should complete the review of its role in supporting low-income countries over the medium term, including its instruments and level of financing and how best countries might exit from reliance on Fund concessional resources.

World Bank

Benefits of Membership to Canada

Membership in the World Bank (the Bank) affords Canada an important voice on key development issues in the world's premier multilateral development institution. With 184 members, and loans and credits outstanding to 140 developing and transition member countries at the end of fiscal year (FY) 2004[4] totalling US$225.4 billion, the Bank has a far-reaching impact on global development and poverty reduction. It provides policy advice and financial support crucial to improving borrowing members' longer-term development and poverty reduction prospects. It also assists members by providing concessional assistance and improved access to world financial markets for development purposes.

Canada's capital share of 2.85 per cent gives it a seat on the Bank's Executive Board and on the Development Committee of the Boards of Governors of the Bank and the IMF. Canada has the opportunity at the Executive Board, in dialogue with Bank staff, and at the annual meetings of the Board of Governors (and the Development Committee) to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders help to guide the Bank in improving developing countries' economic, social and environmental performance. Through its engagement with the Bank, Canada's influence in developing countries can be leveraged beyond what can be achieved through bilateral programs. For example, Canada has played a leading role in the Bank's discussion of the implementation of the heavily indebted poor country debt relief initiative, in shaping the institution's response to post-conflict countries, and in its efforts to assist developing countries to combat terrorist financing and money laundering.

Bank membership also provides the Canadian government with access to the institution's research and policy work, which enriches our own understanding of international development. The Canadian International Development Agency (CIDA), for example, is able to draw on Bank analytic and technical expertise in order to gain a more comprehensive understanding of the social and economic policy environments that are conducive to effective aid delivery. CIDA is also able to leverage its own resources with those of the Bank through participation in a growing number of partnerships with, and in global programs led by, the Bank. Finally, Canada's membership allows Canadian companies and individuals substantial procurement opportunities—in fiscal year 2004 they provided goods and services worth US$71 million under Bank-financed contracts associated with investment lending.

[4] The World Bank's fiscal year begins on July 1 and ends June 30 the following calendar year. FY 2004 refers to the period from July 1, 2003 to June 30, 2004.

Overview of Operations in 2004

In FY 2004 the Bank committed loans and credits of US$20.1 billion to 91 developing and transition countries (see Annex 2). The International Bank for Reconstruction and Development (IBRD) committed US$11.0 billion in new loans in FY 2004, or roughly US$200 million less than in FY 2003. The Bank provided concessional lending through the International Development Association (IDA) valued at US$9.0 billion in FY 2004, up substantially from the US$7.3 billion recorded in FY 2003.

Geographic and Sectoral Focus of Lending

Reflecting significant adjustment lending to large South American emerging market borrowers, new IBRD lending commitments in FY 2004 were highest in the Latin America and Caribbean region, which accounted for 45 per cent of all IBRD lending. The Europe and Central Asia region saw the next highest lending share at 27 per cent, followed by the East Asia and Pacific region at 15 per cent, the Middle East and North Africa region at 9 per cent and the South Asian region at 4 per cent. Given its non-concessional lending terms, the IBRD is not a major lender to African countries.

In FY 2004, at 46 per cent, Africa accounted for the largest share of IDA lending although this was below IDA's indicative 50-per-cent target for the region. South Asia accounted for 33 per cent of IDA commitments and the East Asia/Pacific region and Europe/Central Asia region accounted for 10 per cent and 6 per cent respectively.

The Bank's strong commitment to investing in people is reflected in the sectoral breakdown of both IBRD and IDA lending operations. Support for social sector investments, in particular, remains a high priority. The areas of social protection, social development and human development accounted for 31 per cent of total World Bank commitments in FY 2004. Approximately 27 per cent of IBRD commitments and 37 per cent of IDA commitments supported investments in education, health and other social services, and water, sanitation and flood protection sectors.

Non-Lending Operations

In FY 2004 the Bank continued its strong focus on non-lending services in order to enhance the developmental effectiveness of its operations. The Bank provides a wide range of advisory, analytical, training and knowledge-related services in support of building domestic capacities. Through its non-lending activities, the Bank provides valuable policy advice that can bolster the effectiveness of its investment and adjustment lending.

How the World Bank Group Works

The World Bank Group is made up of four complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC).

The IBRD and IDA (together commonly known as the World Bank) provide funding for investment projects and for adjustment—or economic and sector reform—operations. The IBRD lends on non-concessional terms (charging an interest rate that is slightly above its own borrowing costs) to better-off borrowing members, while IDA provides 35- and 40-year interest-free credits to the poorest borrowers. Since July 2002 IDA also provides grants for certain specific purposes. IDA is the largest source of development finance for the world's poorest countries. The IBRD raises its funds primarily on international markets on the strength of its triple-A credit rating. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than the rate they could secure on their own borrowings. IDA, on the other hand, receives grant funding from donors, loan repayments and annual allocations from IBRD net income. As of June 2004 outstanding IBRD loans and IDA credits amounted to US$109.6 billion and US$115.7 billion respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 2004, the total committed loan and equity portfolio was equivalent to US$17.9 billion. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding portfolio as of June 2004 amounted to US$5.2 billion.

Each of the 184 shareholders has a seat on the Board of Governors of the World Bank. Most decisions on policy, operational and administrative issues, however, have been delegated to the 24-member Executive Board. Membership on the Executive Board is evenly split between developed and developing countries.

Strengthening the World Bank's Poverty Reduction Focus

Focusing Operations on the Millennium Development Goals

The recognition that the Millennium Development Goals (MDGs) can be achieved only through empowerment of the poor underpins the Bank's approaches to countries and sectors. The MDGs now form the cornerstone of the Bank's strategic planning and operational priority setting. The Bank is also working closely with the United Nations system and the Organisation for Economic Co-operation and Development in strengthening international monitoring of the progress being made towards achieving the MDGs.

A key task for the Bank in this exercise is to develop a framework for benchmarking performance among both developing countries and donor agencies. The Bank, together with the IMF and the UN system, is strengthening its country and thematic databases. Publicly available data will be posted on the Development Gateway (www.developmentgateway.org). As national capacity in gathering and assessing statistics is critical to efforts for monitoring progress towards the MDGs, in 2004 the Bank developed and began to implement the Statistical Capacity Building Program to help developing countries strengthen statistical systems, institutional capacity and planning.

Millennium Development Goals

At the Millennium Summit in September 2000, world leaders adopted specific development goals that can be monitored. Subsequently, the United Nations published eight Millennium Development Goals in the September 6, 2001, report of the UN Secretary General on the road map towards implementing the UN Millennium Declaration. The eight goals are:

- to halve, between 1990 and 2015, the proportion of people living on less than one US dollar a day; and to halve, between 1990 and 2015, the proportion of people suffering from hunger;
- to ensure that, by 2015, all children can complete primary schooling;
- to eliminate gender disparity in primary and secondary education, preferably by 2005, and at all education levels no later than 2015;
- to reduce by two-thirds, between 1990 and 2015, the mortality rate for children under 5 years old;
- to reduce by three-quarters, between 1990 and 2015, the maternal-mortality ratio;
- to have halted and begun to reverse, by 2015, the spread of HIV/AIDS; and to have halted and begun to reverse, by 2015, the incidence of malaria and other major diseases;
- to integrate the principles of sustainable development into country policies and programs and to reverse the loss of environmental resources; and to halve, by 2015, the proportion of people without sustainable access to safe drinking water; and
- to develop a global partnership for development including through trade openness and debt relief.

At the request of the Development Committee, the World Bank is working closely with the UN, which has the lead responsibility for tracking progress towards the MDGs, to develop a framework to monitor the implementation of policies that are necessary to promote the attainment of the MDGs and to produce the annual *Global Monitoring Report*. The *Global Monitoring Report* underpins the Development Committee's regular monitoring of progress on the policy agenda and reinforces the accountabilities of the key actors—developing and developed countries, as well as multilateral institutions. The first report was discussed by the Development Committee in April 2004 and was released in July 2004 to disseminate its findings and messages more broadly to policy-makers and the international development community. Given the shared responsibility and mutual accountability for both developing and developed countries for working towards the MDGs, the Bank's monitoring framework assesses economic and governance policies of developing countries as well as the official development assistance, trade and economic policies of developed countries.

The Bank is also working in partnership with developing countries, other aid agencies and civil society more directly to design and implement initiatives to support developing countries in their efforts to reach specific MDGs. These efforts include "fast-track" initiatives that will target Bank and donor resources on countries demonstrating strong commitment to improving social sector programs.

Economic Prospects for Developing Countries

Real gross domestic product (GDP) in developing countries is estimated to have grown by 6.6 per cent in 2004, up from 5.4 per cent in 2003. Growth is expected to decrease in 2005 given expected increases in US real interest rates. Economic prospects, however, vary substantially both across and within regions.

While growth is still low relative to other areas of the developing world, **Latin America** will bolster its 2003 recovery. Real GDP growth throughout the region is estimated at 5.5 per cent in 2004, up from a 2.0-per-cent increase in 2003. Brazil and Argentina remain the key sources of growth in the region.

Latin America continued to be a major focus of World Bank operations in FY 2004. The World Bank committed US$1.3 billion in loans to the Brazilian government to support its social protection and sustainable and equitable growth programs. Argentina received US$1.6 billion in FY 2004 for maternal and child health, economic recovery and national highways management.

East Asia remained the world's fastest-growing region for the year as a whole. Growth in the region was largely boosted by real GDP growth of 9.2 per cent in China. The World Bank provided substantial financing to China in FY 2004, with loans totalling US$1.2 billion on nine different projects. In **South Asia**, prospects remain solid, but India and Pakistan will likely experience a tailing off in growth compared to 2003. India's GDP growth in 2004 is estimated at around 6.2 per cent. As of June 2004, India was the largest single cumulative recipient of World Bank assistance, with lending totalling US$61.5 billion.

In FY 2004 the World Bank committed US$1.4 billion for seven different projects to support poverty reduction efforts in India. In response to the Asian tsunami disaster, the World Bank pledged to make available US$250 million as its initial contribution for emergency reconstruction in the affected countries for the first half of 2005 with more to come following a more comprehensive needs assessment.

In **Africa**, subdued global economic growth, together with recurring civil strife, drought and the HIV/AIDS pandemic, continued to hamper real growth in 2004. Nonetheless, the region is estimated to have enjoyed a 0.5-percentage-point higher level of growth than the 3.8-per-cent growth recorded in 2003. This continues to be lower than the 7-per-cent annual growth estimated to be needed to achieve the MDGs. The World Bank committed more than US$4.1 billion in 29 African countries in FY 2004. The main priorities of the World Bank's work in Africa are to tackle the HIV/AIDS pandemic, spur private sector development, help countries recover from conflict, and help create and share knowledge.

Stronger Focus on Country Ownership

The Bank continues to base its operations on the principles of country ownership. "Homegrown" Poverty Reduction Strategy Papers (PRSPs)[5] are being developed by an increasing number of poor countries as the driver of their national development plans and poverty reduction policies. Increasingly, PRSPs are also driving operations of the Bank and Fund in the poorest countries.

PRSPs are a continuous and evolving process, and many developing country governments have relied on extensive Bank support in this initial stage of design and implementation.

In early 2002 the World Bank and IMF undertook a comprehensive review of the PRSP process. Results show that PRSPs are becoming a valuable tool for enhancing development outcomes. However, it is also clear that more attention needs to be paid to implementation challenges and to addressing bottlenecks in the process. These challenges include enhancing stakeholder participation; improving the link between PRSPs and national budgets and policy-making processes; and improving the coordination and harmonization of donor support.

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[5] PRSPs were originally conceived as a comprehensive policy mechanism to link heavily indebted poor country debt relief more closely with poverty reduction initiatives. They are rapidly evolving into the primary statement of the development strategy of the world's poorest countries.

In FY 2004 the Bank undertook a review of its Comprehensive Development Framework (CDF),[6] which concluded that to achieve the benefits of this approach, countries need to put disciplined budget processes in place. Donors need to support capacity building, especially in the area of budgeting, and to align their assistance with PRSPs, and all multilateral and bilateral development partners need to work together to develop better mechanisms for designing and implementing cross-sectoral programs.

Development Policy Lending

One of the consequences of the shift in Bank operations to support country-owned development and poverty reduction strategies has been a high level of adjustment lending in overall Bank financing. In mid-2004, in a major overhaul of its operational policies, the World Bank replaced adjustment lending by the new development policy lending framework and removed the notional level of 25 per cent for the share of adjustment lending in overall Bank lending. The new framework unifies policy that applies to a whole range of adjustment lending instruments, including sectoral adjustment loans, structural adjustment loans and Poverty Reduction Support Credits. In addition, it deals with core issues of design, fiduciary arrangements, financing options, and dissemination and disclosure. Development policy loans are used to support sector-wide reforms and restructuring. In years when the Bank has been active in supporting major borrowers that are experiencing severe financial difficulties, development policy lending is especially high. Development policy operations accounted for 31 per cent of overall World Bank lending in FY 2004, compared to 33 per cent in FY 2003.

Poverty Reduction Support Credits (PRSCs), introduced in May 2001, represent one type of development policy lending operation that provides budgetary financing in support of the implementation of PRSPs. PRSCs ease administrative burdens on borrowers and encourage harmonization of donor practices. PRSCs are used in cases where clients have transparent budgetary and fiduciary processes and strong PRSPs in place. PRSCs have been approved for a number of developing countries.

Development policy lending is also often used to provide support to middle-income and emerging market economies that are experiencing acute financial problems. In FY 2004 the region encompassing Latin America and the Caribbean received 49 per cent of total development policy lending commitments, the largest regional share by a significant margin.

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[6] The CDF supports country ownership by better integrating the social, environmental and governance aspects of development with financial and structural considerations. Under the CDF, the Bank and other development players take a longer-term view of development and work in closer partnership with developing countries, civil society and the private sector in supporting country-led development programs. The CDF also recognizes the need for countries to develop ownership of their development agendas, the need for a strong focus on development results, and the need for greater coordination and partnership among all development sectors.

Development policy lending has been higher in the case of the IBRD than of IDA. In FY 2004, 40 per cent of IBRD commitments were in the form of development policy loans, compared to 19 per cent for IDA.

Monitoring and Evaluation

The Bank continues to adjust its system of project monitoring and evaluation. Many of the problems stem from both limited borrower capacity and a lack of incentives and guidelines for Bank staff. At Development Committee and other international meetings, Ministers have highlighted the importance of an enhanced focus on results in helping both developing countries and donors design and implement poverty reduction strategies. In response, Bank management has embarked on a process of developing a more comprehensive approach to measuring and monitoring development results. The Bank's approach is focused both on tying its own performance benchmarks more closely with the development priorities of individual PRSPs and on increasing Bank support for statistical and public sector institutional capacity within developing countries. By the end of 2003, the Bank had launched a number of "results-based" Country Assistance Strategy (CAS) pilots. An assessment of the lessons learned from these pilots is underway and the results will inform how to mainstream results into all future CASs going forward. Going forward, the Bank will monitor the poorest countries' progress towards reaching the Millennium Development Goals and its own contribution to this progress.

Assessing Poverty

To ensure that poverty reduction remains at the heart of the institution's operations, the Bank's Poverty Reduction and Economic Management Network (PREM) undertakes country-specific poverty assessments and advises Bank country teams on the poverty reduction impacts of emerging policies, programs and individual projects. PREM has concluded country poverty assessments that cover a large majority of the world's poor. The quality of poverty data, however, is uneven, and PREM continues to work to improve the consistency of its assessments.

The World Bank's Response to the HIV/AIDS Pandemic

HIV/AIDS is not just a public health issue; it is a development crisis. Of the approximately 40 million people around the globe who are living with HIV/AIDS, 95 per cent are in developing countries. The high infection rates in developing countries are killing or incapacitating many of the most productive individuals and threaten economic and social stability. About half of new infections in developing countries are in the 15–24 age bracket. AIDS is now the leading cause of death in Sub-Saharan Africa and among males in the Caribbean. In the hardest-hit countries, HIV/AIDS threatens to reverse the development gains achieved over the past 30 years.

Most of the Bank's HIV/AIDS programming is delivered through IDA, which has mainstreamed HIV/AIDS into its work. In September 2000 the Bank launched a Multi-Country HIV/AIDS Program (MAP) for Africa that has made more than US$1 billion available to African governments to scale up national efforts to combat HIV/AIDS. The overall development objective of the MAP is to dramatically increase access to HIV/AIDS prevention, care and treatment programs. The MAP places a special emphasis on vulnerable groups such as youth and women of childbearing age and provides support to community organizations, NGOs and the private sector for local HIV/AIDS initiatives. The Bank has also commited an additional US$155 million for HIV/AIDS projects in the Caribbean region. The Bank is heavily involved in international efforts to combat the disease. The Bank is one of eight co-sponsors of UNAIDS (which spearheads the UN's response to the crisis). The Bank is also fostering private-public partnerships designed to accelerate the development of an HIV/AIDS vaccine for use in developing countries. The Bank is an active partner in the Global Fund to Fight AIDS, Tuberculosis and Malaria that was launched at the G-8 Summit in Genoa. The Bank, along with UNAIDS and the World Health Organization, holds ex-officio (non-voting) seats on the Board of the Global Fund. The Bank is also the Trustee of the Global Fund, with responsibility for the collection, investment and management of funds, disbursement of funds to countries and programs, and financial reporting. In April 2004, the Bank entered into a partnership with the Global Fund, UNICEF and the Clinton Foundation to make it possible for developing countries to purchase high-quality AIDS medicines at low prices.

The IDA14 Replenishment—Working Together to Achieve the Millennium Development Goals

Negotiations on the volume of financing and operational priorities for the 14th replenishment of IDA began in February 2004. In early 2005, 40 donor governments, with strong participation from borrower representatives, concluded negotiations on the 14th replenishment of the International Development Association (IDA14), subject to final approval by their own

governments and Bank Governors. The IDA14 period runs from July 2005 to June 2008. The IDA Deputies' Report, which serves as the IDA14 policy framework, is expected to be approved by Bank Governors by May 2005 and will be made available on the Bank's Web site.[7]

Subject to final approval from their respective governments, donors are expected to substantially increase funding for IDA to ensure its strong participation in the international effort to scale up poverty reduction efforts to reach the Millennium Development Goals. Canada is expected to maintain its 3.75-per-cent donor share during the IDA14 period.

In terms of operational priorities, IDA donors and Bank management agreed that IDA will link its operations more closely to country-owned poverty reduction strategies. Within the framework of support for PRSPs, donors have stressed the need for IDA to invest in people, especially through education, health and basic infrastructure, to promote growth through private sector development, and to monitor measurable results. They reiterated the IDA12 and IDA13 objective of having Africa account for half of IDA allocations.

During the IDA13 period, IDA for the first time is able to provide substantial grants, as opposed to interest-free loans, for certain specific purposes. Recognizing the debt vulnerability of many low-income countries, in IDA14, donors agreed to link the provision of grants to debt distress. More specifically, IDA will establish thresholds for a number of indicators of debt sustainability. These thresholds will be a function of the quality of governance in the country. Well-governed countries would be assumed to be able to manage higher levels of debt and more of their assistance would be in the form of loans. Poorly governed countries are more debt-vulnerable and would receive less assistance; all of it, however, would be in the form of grants and for specific projects and programs that are likely to reduce poverty.

IDA donors also urged IDA to be more selective in its operations and to work closely with other development partners, on the basis of comparative advantage. They reaffirmed the importance of IDA's performance-based allocation mechanism, and especially the high weight it assigns to governance. At the same time, they recommended that IDA show greater flexibility with respect to allocations to post-conflict countries where there has been little opportunity to establish policy track records and to vulnerable countries such as Haiti.

[7] A draft of the IDA Deputies' Report was posted for public review and comment in November 2004.

IDA—Focused on the World's Poorest

Established in 1960, IDA is the single most important source of external development support for the world's poorest countries. IDA provides US$6 billion to US$9 billion annually in highly concessional long-term financing to 81 countries, home to 2.5 billion people, of whom 68 per cent live on less than US$2 a day and 28 per cent survive on less than US$1 a day.

IDA provides primarily concessional loans in support of poverty reduction programs. These IDA credits carry no interest and offer a much longer grace period and maturity than other forms of financing. IDA's standard concessional loan (called a "credit") does not require principal repayments until 10 years after it is signed, with a final maturity of 40 years. Therefore, a country effectively repays only about 40 per cent of a regular IDA credit, after applying a discount rate to convert credit repayments over 40 years into today's prices. From July 2002 IDA has been able to provide a significant portion of its financing to the poorest IDA-eligible countries on a grants basis.

Eligibility for IDA concessional lending is based primarily on an assessment of an individual country's per capita income. The operational cut-off for IDA eligibility is US$895 per capita. A number of small island states with per capita incomes above this threshold are also eligible for IDA concessional financing given their limited capacity and high vulnerability to external shocks.

IDA helps provide access to improved social services such as schools, hospitals and clinics, and clean water and sanitation services. IDA also supports investments aimed at improving productivity and creating employment.

To ensure that its resources are used effectively, IDA allocations to clients are governed by performance criteria that are heavily focused on good governance.

Canada's Financial Participation in the IBRD and IDA

IBRD

As a shareholder of the IBRD, Canada has a capital share of 2.85 per cent and a voting share of 2.78 per cent. A relatively small proportion of this capital is required to be "paid-in"—about 6 per cent overall, but just 3 per cent in the last capital subscription. The remainder is "callable" in the unlikely event that the IBRD needs it from member countries. Callable capital represents a contingent liability for shareholders. The IBRD leverages paid-in capital to raise financing in international capital markets for its lending program. The IBRD's capital adequacy is regularly reviewed and the institution's capital is replenished through occasional general capital increases. The last general capital increase was in 1988.

Canada's Total IBRD Subscriptions and Contributions Committed

(in millions of US dollars)	Of which paid-in	Of which callable
5,403.8	334.9	5,068.9

In August 2004, Canada agreed to convert the bulk of its national currency paid-in capital into US dollars in order to continue to provide the World Bank with usable capital for poverty reduction purposes. With the World Bank's decision to retire its currency pool loans, the World Bank could no longer use Canada's national currency paid-in capital for lending purposes. Since the amount of US dollars received from the conversion was less than the US dollar value of Canada's original subscription, Canada will issue a special repurchase US dollar note to settle the difference to maintain the value of Canada's shares in the institution.

IDA

As IDA concessional financing does not generate a financial return, its operations are financed entirely from donor contributions, loan fees and repayments of principal on its outstanding loans, as well as allocations from IBRD net income. To meet Canada's $690.4-million obligation under IDA13, the Government issued demand notes in fiscal years 2002–03, 2003–04 and 2004–05, each valued at $230.1 million. The notes for 2002–03 and 2003-04 are fully encashed. The note for 2004–05 will be encashed in April 2005.

Canada's Contribution to IDA13 (July 2002–June 2005)	**Canada's IDA13 Donor share**	**Canada's IDA13 Voting Share**
(in millions of Canadian dollars)	(per cent)	(per cent)
690.4	3.75	2.96

Canada's Priorities at the World Bank

Canada's positions are based on our international development goals and foreign policy priorities and on our strong interest in maintaining the financial integrity of the World Bank.

Poverty Reduction and Human Development

Canada has long been a key player in international efforts to assist the poorest and strongly supports poverty reduction as the overarching objective of the World Bank. As such, Canada endorses the Poverty Reduction Strategy Paper process, under which developing country governments develop and implement broad-based poverty reduction strategies in partnership with the donor community. The Bank has increasingly recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance, strengthening public expenditure management and the monitoring of non-productive expenditures (especially military), external debt and environmental sustainability are just a few of the factors that need to be considered in designing strategies to help improve the living standards of the poor. In the case of small states, the Bank has to take into account additional factors of economic and physical vulnerability and limited capacity.

Canada strongly supports the Bank's efforts to increase the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth and reducing poverty. At the same time, adequate attention to social issues must be an essential part of macroeconomic stabilization and sustainable development goals.

In July 2003 the Bank' s Executive Board approved an Infrastructure Action Plan to revitalize the Bank's work in this area. Infrastructure is about providing basic services that people need for everyday life—water, sanitation, modern energy, roads and other aspects of transport, and access to modern information communications technology. The overarching premise of the World Bank's Action Plan is to ensure efficient, affordable and sustainable delivery of infrastructure services by leveraging funds from the entire spectrum of public and private sources, supported by IBRD, IDA, IFC and MIGA products.

In less than two years, significant progress has been made in responding to increased demand for infrastructure, rebuilding the country-level diagnostic work and strengthening the World Bank's instruments and approaches. In FY 2004, the World Bank delivered about 70 knowledge products, including some 10 diagnostic reports called Recent Economic Developments in Infrastructure (REDI). The World Bank also committed close to US$6.5 billion in new infrastructure lending in FY 2004, representing an increase of US$1.1 billion over FY 2003. The IFC's total commitments in infrastructure for FY 2004 were US$983 million, a significant increase over FY 2003 (US$649 million). MIGA's guarantees for infrastructure, however, fell from US$793 million in FY 2003 to US$391 million in FY 2004, but it expects demand for guarantees to increase again in FY 2005.

Poverty Reduction and Sub-Saharan Africa

Canada has long been a leading advocate for poverty reduction and development in Africa, home to some of the poorest countries in the world. In 2004, Canada built on its regular support through CIDA and at the IMF and World Bank with three key initiatives:

- **Commission for Africa:** Building on Canada's leadership on Africa at the 2002 G-8 Kananaskis Summit, Finance Minister Ralph Goodale was invited to be one of 17 Commissioners on the UK's Commission for Africa. The goal of the Commission is to renew the emphasis on Africa, the only continent that has grown poorer over the past four decades. In its report due in March 2005, the Commission will put forward initiatives and recommendations in support of African development, for consideration by the G-8, other donors, private actors, and African countries themselves. Canada has already announced an additional C$42 million to help support polio eradication, a crippling disease with over 86 per cent of cases in Africa. In February 2005, Canada also announced additional debt relief on low-income countries' debt-service obligations to IDA and the African Development Fund as well as possibly the IMF. This Canadian initiative will significantly benefit African countries, as 36 of the 56 potentially eligible countries are in Africa.
- **IDA14 negotiations:** Canada and key donors successfully pressed management to again earmark half of IDA resources to support African development under IDA14, as was done under IDA12 and IDA13. Recognizing the fragile debt sustainability situation of many poor countries on the continent, most of which are benefiting under the Heavily Indebted Poor Countries Debt Initiative, Canada supported the provision of grant financing to countries experiencing debt distress.
- **CIDA initiatives:** A new visionary plan offers hope for Africa to break the cycle of poverty and fully participate in the global economy. The New Partnership for Africa's Development (NEPAD) places Africa's future in African hands. In an effort to boost trade and investment on the continent, Canada has led the international community with a C$500-million contribution to support this initiative. In addition, Budget 2003 committed the Government to double international assistance by 2010, ensuring that 50 per cent of all increases are directed to Africa. Canada and other G-8 members have welcomed NEPAD as a cornerstone on which to build the Africa Action Plan, an international effort to reduce poverty and create sustainable economic growth on the continent.

Canada's Voting Record

World Bank Executive Board decisions are traditionally taken on a consensus basis, without resorting to a formal vote. On occasion, however, individual Executive Directors have been unable to join the Board consensus. In 2004 the Canadian Executive Director opposed an IFC investment in LNM Holdings N.V., which finances steel projects around the world, in view of concerns about global over-capacity in the steel market. He also abstained from voting on an IDA credit to Yemen for a Basic Education Development Project because of concerns about the Government of Yemen's adherence to contract law, and on an IDA credit and grant to Nepal for a Financial Sector Restructuring Project because of project-related concerns, including the excessive voluntary separation package. In July 2004 the Honourable Ralph Goodale, as Governor representing Canada on the World Bank Board of Governors, did not support a proposed 4.1-per-cent increase in remuneration for World Bank Executive Directors as it was above the rate of inflation for the Washington area. In September 2004, the Honourable Ralph Goodale did not support a 9.2-per-cent increase in the remuneration of the World Bank President.

Education

Canada considers education to be a critical factor in development and strongly supports recent efforts by the Bank to increase support to this sector. Commitments to education in FY 2004 amounted to US$1.7 billion. The Bank also provides important non-lending support for education through its analytic and policy advisory work. The Bank has also focused heavily on girls' education. Canada has worked in collaboration with the Bank and other agencies in support of the Education for All (EFA) Initiative. Canada strongly supports the Bank's efforts to develop a Fast Track Initiative (FTI) to assist countries with good education strategies. The FTI was developed by the Bank in close cooperation with a special G-8 Education Task Force, and it was endorsed by Development Committee members in April 2002. To date, Canada has pledged C$135 million from 2003–2008 for FTI proposals from Tanzania, Mozambique and Honduras, over and above current commitments.

Looking ahead, the World Bank's work will be guided by the following three principles:

- increases in education supply must go hand-in-hand with improvements in quality. The World Bank is reviewing its own education strategy update to ensure that supply and quality are given equal importance;
- EFA objectives and financing requirements must be integrated within a country's broader education sector strategy and budget frameworks; and
- the FTI should be scaled up as a demonstrated effective instrument.

On funding, aid resources for basic education in low-income countries have not been increasing fast enough. The Bank estimates that only about 3 per cent of official development assistance (ODA) goes to basic education

within low-income countries—of the US$61.8 billion in ODA in 2002, only US$6.5 billion went for education, of which about US$2 billion was for basic education in low-income countries. With all low-income countries now eligible for the FTI, another 25 countries could become eligible for the FTI in 2005 (including 14 Sub-Saharan African countries) and another 13 in 2006, each having developed sound plans for scaled-up investment in basic education consistent with the agreed-upon FTI framework and criteria. The World Bank estimates that additional aid resource needs for basic education in 2005 will be US$1.4 billion, increasing to US$2.2 billion in 2006.

Development Effectiveness

Ensuring the effectiveness of the Bank's operations has long been a key Canadian objective. This entails more than just reducing costs and saving money. Effectiveness requires selectivity, clear priority-setting and efficient service delivery. The Bank needs to operate in those areas where its assistance can be productively used and where it has a clear comparative advantage. The Bank is exercising greater selectivity by focusing on reforming states and good performers. In the case of IDA credits, allocations are based on performance criteria. In order to monitor country performances in a meaningful manner, the Bank is focusing on incorporating poverty-related outcome indicators to measure real results, including such indicators as child malnutrition and child and maternal mortality.

The Bank continues to strengthen its efforts to improve development effectiveness through a renewed emphasis on the quality of its project portfolio. More vigilance is now exercised at the project preparation and supervision stages, and this has led to an improvement in the number of projects that are meeting their development objectives. For FY 2003 the Operations Evaluation Department estimated that 83 per cent of Bank projects had satisfactory ratings in terms of meeting their development objectives. This represents a steady increase since 1997, when only 73 per cent of projects were rated satisfactory.

In FY 2004 the World Bank engaged in the nine-month Global Learning Process, which culminated in a high-level working conference in Shanghai in May 2004 jointly hosted by the World Bank and the Government of China. The primary objective of the learning process was to support the achievement of the Millennium Development Goals, especially the poverty reduction goal, through the identification of large-scale solutions that can be widely reproduced. The Global Learning Process, especially the conference, allowed key development actors from developing and developed countries to share their experiences and policy lessons learned from poverty reduction initiatives around the world.

Coordination and harmonization of programs is another critical element of effective development assistance. The World Bank, together with other multilateral development banks and the Organisation for Economic Co-operation and Development/Development Assistance Committee,

co-sponsored an international forum on harmonization in Rome in February 2003. The bulk of the international donor community, as well as 30 developing nations, participated in the forum to produce the Rome Declaration on Harmonization. The Declaration sets out an ambitious program of activities to ensure that harmonization efforts are adapted to the country context and that donor assistance is aligned with the recipient's priorities. The Declaration also promotes country-led efforts to streamline donor procedures and practices, and urges the adoption of policies, procedures and practices to ease harmonization. The harmonization focus has now shifted to in-country implementation.

The World Bank is firmly committed to the donor harmonization efforts as a key institutional priority. The Bank sees itself as a participant, facilitator and leader in these efforts. The Bank is continuing a major internal reform and modernization of its operational policy framework for which one key objective is easier harmonization and alignment. The reforms include provisions for pooling resources under Sector-Wide Approaches (2002); aligning CASs with PRSPs (2002); adapting the Bank audit policy to international auditing standards and increasingly relying on country audit processes (2003); updating the Bank's procurement guidelines in line with good practice recommendations prepared by the Multilateral Development Bank Heads of Procurement Working Group (2003); modernizing eligible expenditure requirements to better align its assistance around country objectives (2004); and replacing structural adjustment lending by development policy lending that takes account *inter alia* of country ownership and is coordinated with other development partners. In September 2004 the Bank's Executive Directors endorsed in principle a greater reliance on country systems in projects supported by the Bank, including the possibility of country pilots to test the implications of the approach in environmental and social safeguards and international competitive bidding.

The Bank continues to modernize the operational policies governing its investment operations. Policy modifications slated for adoption in the near future will enable the expeditious scaling-up of successful projects without a protracted internal review process. Shareholder oversight of these actions is assured as the Bank's Board must approve these additional financing efforts. The Bank is in the midst of reforming its budgetary processes and modifying its organizational structure to better align staff with client country needs. These efforts will contribute to greater client focus, heightened transparency of internal redeployments, and greater overall effectiveness.

In March 2005 the World Bank, partner countries, bilateral aid agencies and multilateral institutions will review progress made since the Rome Conference. While planning for this Second High-Level Forum on Harmonization is ongoing, it is expected that the priorities could include (i) reinforcing the need to align strategies and financing with poverty reduction strategy priorities; (ii) committing to work towards use of country systems; (iii) streamlining the delivery of aid through more delegated cooperation and silent partnerships; and (iv) developing indicators.

Gender Issues

Canada actively promotes gender issues as a priority for World Bank operations. World Bank lending in almost all sectors includes activities that specifically benefit women and girls. Following a review of its gender strategy, management committed to integrate gender issues into Bank Country Assistance Strategies and to work with developing countries and external partners to identify appropriate strategies to promote gender equality. In 2001 the Bank published a major policy research report, *Engendering Development—Through Gender Equality in Rights, Resources, and Voice.* The report, which informs the Bank's gender strategy, concluded that there is strong empirical evidence that gender inequalities tend to slow development, while gender equality helps to lower infant mortality, improve nutrition, and lower fertility and HIV/AIDS transmission rates. CIDA continues to work closely with the Bank to improve the Bank's capacity in gender equity issues. To expand the exchange of knowledge with its development partners, the Bank provides a number of statistical indicators on gender on its Web site.

Private Sector Development

The private sector plays an important role in virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. Canada has maintained that the Bank Group's fundamental priority for private sector development is to create an enabling environment for investment and sound regulatory frameworks for the private sector to develop in a sustainable fashion. In 2001 the Bank Group began consultations with governments, the private sector, NGOs and multilateral agencies on a private sector development strategy. Based on this consultative process, the Bank Group's Private Sector Development Strategy was formally endorsed by Executive Directors in February 2002. The strategy relates to two broad themes: extending the reach of markets and improving the delivery of basic services. The key elements of the strategy include fostering a sound investment climate; providing direct support for private firms; supporting private participation in infrastructure; increasing the role of the private sector in assisting public sector efforts to achieve universal and affordable access to social services; and creating a new approach to more effectively target subsidies to the poor to improve service delivery. Canada has encouraged this increasingly coordinated approach to private sector development.

In 2004 the Bank, building on the success of its inaugural *Doing Business in 2004* report on regulatory environments in its member countries, published its *Doing Business in 2005* report on removing obstacles to growth. Like the inaugural report, the new report presented indicators in five main topics: starting a business, hiring and firing workers, enforcing contracts, getting credit and closing a business. It also adds another two sets: registering property and protecting investors. The indicators are used to analyze economic and social outcomes such as productivity, investment, informality, corruption, unemployment and poverty, and identify what reforms have worked, where and why.

The Doing Business project itself aims to motivate reforms through country benchmarking. The World Bank reports that this practice has been a powerful motivator for mobilizing society to demand improved public services, enhance political accountability and encourage better economic policy. In addition, this report has the objective of informing the design of reforms. For example, in Ethiopia, the report revealed that a requirement to publish an enterprise's articles of association in local papers added inordinately to costs while serving little public value. Confronted with the evidence, the Ethiopian government scrapped the regulation. The total cost of registration declined in one year from 422 per cent of per capita national income to 78 per cent, while 12 days were pared from total registration time. Incidentally, this report rates Canada very favourably, in all categories, as a place to establish and conduct a business. The results of the World Bank's Doing Business project and its work on private sector development informed the influential *World Development Report 2005*, which focused on investment climate issues.

World Development Report 2005: A Better Investment Climate For Everyone

The World Bank's annual *World Development Report* (WDR), prepared in consultation with stakeholders, provides in-depth analysis of a specific aspect of development. Past reports have considered such topics as the role of the state, transition economies, labour, infrastructure, health, the environment and poverty. The reports are the Bank's best-known contribution to thinking about development.

The 2005 WDR focuses on what governments can do to improve the investment climates of their societies in order to increase growth and reduce poverty.

A key message of the 2005 WDR is that accelerating growth and poverty reduction requires governments to reduce the policy risks, costs and barriers to competition facing firms of all types—from farmers and micro-entrepreneurs to local manufacturing companies and multinationals.

The report draws on surveys of over 30,000 firms in 53 developing countries, the Bank's Doing Business database, country case studies and other new research, and usefully highlights opportunities for governments to improve their investment climates by expanding the opportunities and incentives for firms of all types to invest productively, create jobs and expand.

The 2005 WDR is available online at www.worldbank.org.

In FY 2004 the IBRD and IDA together committed US$4,176.6 million in lending in support of financial and private sector development. An important example of the private sector's role in development is the growing impact of microfinance operations (relatively small loans made to the poor by grassroots organizations). With a small investment, these organizations have been successful in improving the living conditions of the poor—particularly women—in developing countries. Evidence from these operations is compelling; it shows that the poor can be very good entrepreneurs as well as very good credit risks. In 2004 the IFC and the World Bank launched a new initiative to support innovative businesses that create sustainable economic opportunities for very poor and marginalized people. The grassroots business organizations are socially driven ventures, whether for-profit or not-for-profit, that reach out to those at the "base of the pyramid" as partners, suppliers, consumers and/or beneficiaries. These businesses provide income, employment and training for disadvantaged people, bridging the gap to the global marketplace. The initiative has helped Hagar, a Cambodian charity engaging destitute women in soy milk production, and Honey Care Africa, which helps rural farmers in Kenya to augment their income by providing them with the skills and training needed to enter beekeeping, then buys their honey at a guaranteed price and sells it commercially, to expand their operations and help more people.

In November 2004 the United Nations launched the International Year of Microcredit 2005 in an effort to build support for making financial services more accessible to poor and low-income people, raise public awareness about microcredit and microfinance, and promote innovative partnerships among governments, donors, international organizations, NGOs, the private sector, academia and microfinance clients. The Year's overarching goal is to provide greater access to credit, savings, insurance, transfer remittances and other financial services for poor and low-income households so they can move towards more secure livelihoods and prosperous futures.

The Consultative Group to Assist the Poorest (CGAP) is expected to play a critical role in the International Year of Microcredit. CGAP, a consortium that includes the Bank, Canada, 30 other multilateral and bilateral donors, and two private organizations, was established in 1995 to support the development and expansion of sustainable institutions that provide microfinancing services to the poor. In December 2004 CGAP welcomed the IFC as the newest member in order to bring mutual benefits and support an increase in the IFC's microfinance activities. In September 2002 CGAP members renewed the Group's mandate for a third term (from 2003 to 2008). In 2004 it developed and endorsed the key principles of microfinance, which were further endorsed by its membership and the Group of Eight leaders at their June 2004 Summit. CGAP will contribute further to the success of the International Year of Microcredit through the promotion of transparent and inclusive financial sectors and institutions, new research and donor conferences.

Microfinance: The Consultative Group to Assist the Poorest

Microfinance is an important development instrument in the world's poorest countries. In FY 2004 CGAP committed US$13.7 million in new grants and initiatives to expand microfinance operations in the world's poorest countries. Canada strongly supports CGAP efforts to expand microfinance and provides C$500,000 in annual contributions. CGAP moved into its third five-year phase in July 2003.

CGAP's third phase centres on the following four strategic priorities:

- fostering a diversity of financial institutions that serve the poor;
- facilitating the poor's access to a wide range of flexible, convenient financial services;
- improving the availability and quality of information on the performance of microfinance institutions; and
- promoting a sound policy and legal framework for microfinance.

CGAP works in each of these four strategic areas by providing technical assistance; developing and setting standards; advancing knowledge and information sharing; and offering training and capacity-building services together with other actors.

More information on CGAP is available on the Web at www.cgap.org.

Good Governance and Anti-Corruption

Canada is an advocate of strong Bank support for improved public and corporate sector governance. Over the past decade governance has been mainstreamed into the Bank's adjustment and investment lending, and more recently into its country analytical work.

The Bank's governance strategy, *Reforming Public Institutions and Strengthening Governance*, stresses the need for the Bank to strengthen its tools for evaluating the quality of a country's institutions and for assessing a country's readiness to initiate specific governance reforms. The Bank routinely produces a set of core diagnostic reports that focus on poverty, analyze the effectiveness and efficiency of public expenditures, assess public finance accountability, review procurement practices, and generally provide an analytic framework for prioritizing development activities—the information that is needed as the basis for the lending program in all countries, regardless of their other characteristics. Core diagnostic reports include poverty assessments, country economic memoranda, public expenditure reviews, country procurement assessment reviews and country financial accountability assessments. In FY 2004 the Bank produced 734 "knowledge" products, including 122 core diagnostic reports.

Since 1997 anti-corruption activities have been integral components of the Bank's public sector management portfolio. The Bank has mainstreamed anti-corruption issues into its Country Assistance Strategies. The Bank has amended its procurement guidelines to strengthen the procedures for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption. In July 2004 the World Bank adopted the new Strategic Directions and Business Plan, as well as the new External Communications Strategy related to investigations and sanctions with disclosure policy amendments, for the Department of Institutional Integrity. In six years the Bank has debarred over 300 firms and individuals from receiving Bank contracts because of their involvement in corruption or the misuse of Bank funds and obtained 25 criminal convictions in multiple jurisdictions. At the start of 2005, 267 companies or individuals were ineligible from benefiting from contracts under World Bank-financed projects. In addition, the Bank issued 10 letters of reprimand to companies or individuals doing business under Bank-financed contracts.

For many of the world's poorest countries, where governance problems remain endemic, bilateral development cooperation agencies have been reducing aid flows. Moreover, IDA's performance-based allocations also reduce World Bank concessional financing to these countries. Many of these countries, increasingly referred to as low-income countries under stress (LICUS), are becoming marginalized from development assistance programming. Recognizing that engagement with the international community can promote reform, following a review of the Bank's LICUS strategy, Executive Directors approved the establishment of a special LICUS Implementation Trust Fund in January 2004 that will be used to finance small demonstration projects aimed at improving governance and at strengthening institutional capacity. In March 2004 World Bank Governors approved the transfer of US$25 million from the Bank's surplus account to the LICUS Implementation Trust Fund. In cases where LICUS government structures are particularly weak, Trust Fund financing will be delivered through NGOs.

The World Bank's approach to LICUS and post-conflict countries is constantly evolving. These countries often lack adequate governance structures and capacity. The World Bank is increasingly called upon to work closely with the United Nations, other international financial institutions and bilateral donors on needs assessments, to act as facilitator by designing, implementing and administering trust funds, and to help build governance structures in countries such as Haiti and Afghanistan.

In its efforts to promote better governance practices, the World Bank Institute has established close working relations with the Parliamentary Centre of Canada and with international organizations. The IMF and World Bank as a whole continue to support the work of the Toronto Centre to build capacity in the areas of financial sector supervision.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision internationally, in 1997 the Government of Canada, the World Bank and the Schulich School of Business at York University established the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior bank and insurance supervisors and securities market regulators, putting them in a stronger position to fulfill their responsibilities and thereby reducing the severity and frequency of financial crises. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. The Toronto Centre has trained close to 1,500 senior public servants from more than 120 countries.

The Toronto Centre works with a number of partners to deliver programs in various parts of the world. Joint programs are delivered with the Financial Stability Institute in Basel and with a number of regional organizations in Asia, Latin America, Southern Africa, and Central and Eastern Europe. In addition, the Centre has expanded its offering of special programs for senior supervisory managers by partnering with individual countries, and with the IMF, the International Organization of Securities Commissions and the Organisation for Economic Co-operation and Development. In short, the Toronto Centre now delivers 3 leadership programs in Toronto and 10 to 12 regional, country, joint and special programs around the world.

In 2004, recognizing the importance of cross-sectoral debate and discussion of common issues amongst senior executives of supervisory agencies, the Centre embarked on an initiative to bring together the most senior executives from banking and insurance supervision and securities markets regulation. The Executive Forum enabled leading experts in the fields of regulation and supervision to help the participating executives to understand some of the key issues they are facing and the capacity of their agencies to deal with them. As a result of their attendance at the program, four supervisory leaders have asked the Toronto Centre to develop and customize programs for each of their countries.

The World Bank provided US$1.25 million in funding to the Toronto Centre from 1998 through 2000. The IMF has contributed US$1.7 million since 2000 and also provides support in kind. The Bank for International Settlements provided US$500,000 over the 2000–2002 period. Canadian funding for the Toronto Centre has been provided by CIDA and amounts to C$6.2 million to date. As well, the Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, the Royal Bank of Canada and TD Canada Trust contributed to the initial round of funding. In addition, support for individual projects has been received from USAID, the Government of Singapore, the Financial Technology Transfer Agency Luxembourg, the Inter-American Development Bank, and the multi-donor Financial Sector Reform and Strengthening Initiative. The Office of the Superintendent of Financial Institutions has provided support from the beginning and it remains a major contributor to the work of the Toronto Centre. The Ontario Securities Commission has become a contributor to the Centre's efforts in the area of capital markets regulation.

The Toronto Centre can be reached through its Web site at www.torontocentre.org.

In 2003 and 2004 the Canadian Executive Director and his colleagues on the Committee on Governance and Executive Directors' Administrative Matters developed measures to enhance the efficiency and effectiveness of Board meetings and other operations. They also recommended important corporate governance initiatives, including financial disclosure for Board officials and an ethics committee to provide guidance to Executive Directors and their senior staff as well as to the President of the World Bank. The Executive Board adopted and implemented these measures in 2004.

Environmentally Sustainable Development

The Canadian government, alongside Canadian civil society, has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations. Along with gender, this is an area that could be more strongly emphasized in Country Assistance Strategies and World Bank assessments of PRSPs. The Bank has estimated the economic costs of environmental degradation in many developing countries to be, on average, in the range of 4 to 8 per cent of GDP. Under its environmental strategy, the Bank is moving to improve its environmental safeguard system and to mainstream environmental policies and issues into its loan and policy dialogue work. The Bank also works closely with clients to help them introduce and implement their own environmental safeguard systems to help them manage their resources more sustainably.

While the Bank is mainstreaming environmental considerations into the broad range of its operations, the number of direct environmental investments it supports varies from year to year. In FY 2004 the share of overall Bank lending directed to environmental and natural resource management remained unchanged at 6 per cent.

The Bank has been particularly active in the area of climate change. As an implementing agency of the Montreal Protocol's Multilateral Fund, the Bank has helped to phase out about 140,000 tons of ozone-depleting potential substances at a cost of US$650 million and to complete over 416 projects by the end of FY 2004. In FY 2004, 28 new subprojects were approved with funding amounting to US$66.2 million.

Many developing countries face daunting water resource challenges as the needs for water supply, irrigation and hydroelectricity grow. As a consequence, there is a high and increasing demand for World Bank engagement. Accordingly, the Bank articulated its strategic directions for the water sector in a paper published in February 2003. As a result of this strategy, Bank investment in the Water, Sanitation and Flood Protection sector more than doubled in FY 2003 to 7 per cent of overall lending from 3 per cent in 2002 and increased further to 8 per cent in FY 2004. Together with the United Nations Development Programme and United Nations Environment Programme, the Bank is an implementing agency of the Global Environment Facility (GEF). Through the GEF, the Bank supports projects in four key areas: climate change, biodiversity conservation, phase-out of ozone-depleting

substances and protection of international waters. Since the inception of the GEF, the World Bank Group has mobilized nearly US$12 billion in public and private funds to support action in the four key areas. In FY 2004, 41 new GEF projects were approved for US$219 million in GEF financing and additional Bank financing of US$738 million.

More recently the World Bank has expanded its carbon finance business. These activities include the Prototype Carbon Fund, Community Development Carbon Fund and the BioCarbon Fund. The Prototype Carbon Fund, operational as a partnership between 17 companies and six governments (including Canada) since April 2000, pioneered the market for project-based greenhouse gas emission reductions while promoting sustainable development and offering a learning-by-doing opportunity to its stakeholders. The Community Development Carbon Fund, operational since July 2003, is a public/private initiative with a target size of US$100 million that provides carbon finance to small-scale projects in the poorer rural areas of the developing world. The BioCarbon Fund, a public/private initiative administered by the World Bank and operational since May 2004, has capital of US$33.3 million. Through investments in demonstration projects that sequester or conserve carbon in forest and agro-ecosystems, the BioCarbon Fund aims to deliver cost-effective emission reductions, while promoting biodiversity conservation and poverty alleviation. In December 2004 the World Bank and European Investment Bank agreed to cooperate in the development of a Pan-European Carbon Fund.

The World Bank continues to strengthen its approach to ensuring sustainable development. Safeguard policies are a subset of World Bank operational policies that require that potentially adverse environmental and social impacts of Bank investment projects be identified, avoided or minimized where feasible, and mitigated and monitored. Bank management first articulated the concept of safeguard policies in 1997 to stress the importance of this specific set of operational policies for achieving its environmental and social objectives and enhancing the quality of its operations. In 2003 there was a strengthening in the implementation of safeguard polices. In addition, disclosure of safeguard documents has increased now that the application of the Policy on Disclosure of Information is fully mainstreamed. The higher number of projects subject to environmental scrutiny, and the larger number of documents disclosed, reflect the increased mainstreaming of environmental and social concerns in the Bank's lending portfolio.

Over the course of 2004 the World Bank Group discussed at length the report of the independent stakeholder process led by Dr. Emil Salim, as part of the Group's Extractive Industries Review. The process was launched in 2000 in response to concerns expressed by a variety of stakeholders, primarily environmental and human rights organizations. Throughout 2004 Canada underscored the need for meaningful consultations and pressed World Bank management, under both its translation and disclosure policies, to release translated versions of key Bank documents as soon as possible to inform public debate on this critical issue.

The Executive Board's consideration in August 2004 of the Salim report, the World Bank Group Management Response to the Extractive Industries Review and related reports, was the culmination of a wide-ranging process that included multiple in-depth, independent technical reviews, project site visits, and a series of conferences around the globe to solicit the views of stakeholders in government, industry, civil society and local communities.

In its proposal to the Board, the World Bank Group indicated that it would continue investments in oil, gas and mining projects, as these remain an essential part of the development of many poor nations. The World Bank Group also noted that, as countries develop their resources, the Group's capital and expertise can help ensure that such projects meet high environmental, social and governance standards, and that revenue from the projects is used transparently and effectively.

The central message of the reviews was that while extractive industry investments can contribute to sustainable development, the World Bank Group should further enhance its efforts in several areas: more explicitly identifying and tracking poverty reduction associated with its projects, the overall quality of governance in host countries, broader inclusion of local stakeholders, transparency of revenue management and project documents, and the promotion of renewable energy and cleaner fuel alternatives. In the area of renewable energy, the World Bank Group will seek to scale up its activities: management has set an initial target to increase its renewable energy and energy efficiency portfolios by 20 per cent annually over the next five years, which will increase the level of investments in this sector to more than US$400 million per year. This target will be reviewed on a regular basis.

Trade and Development

Canada recognizes that the capacity of small nations, emerging economies and other developing countries to participate effectively in the global trading system is an important component of a comprehensive approach to growth and poverty reduction. Canada has stressed the need to incorporate trade sector capacity building in Bank Country Assistance Strategies and nationally developed Poverty Reduction Strategy Papers.

The objectives of the Bank's work in the trade area cover three distinct but complementary areas:

- at the global level, promotion of change in the world trading system to support development, including activities to promote a pro-development Doha outcome and work with bilateral agencies and NGOs to promote the trade and development agenda;
- at the regional level, promotion of effective cooperation, through both analytical work and active support for cross-cutting issues such as standards and trade liberalization; and
- at the national level, promotion of trade issues in country strategies, including targeted country analysis and technical support.

Doha participants reached agreement in July 2004 on a work program containing frameworks and agreements designed to allow the negotiations to move forward. Much work remains before Trade Ministers meet again in Hong Kong in December 2005. To support the process, the World Bank continues to aid developing countries to increase their capacity to participate in world trade. Such assistance finances government trade reform programs, including income maintenance, worker retraining, investments in ports and roads, and reform of trade-related institutions. As the Doha agreement begins to take shape, the Bank will work with countries to quantify ways they might be affected individually and will help tailor reform programs to their needs if requested.

The Bank will also continue to play a strong advocacy role for developing countries on trade issues. On November 16, 2004, the World Bank launched its annual report—*Global Economic Prospects 2005: Trade, Regionalism and Development 2005* —to shed light on the new bilateral and regional preferential trading arrangements mushrooming all over the globe. Over the last 20 years the number of such agreements, including the North American Free Trade Agreement, has increased sixfold to some 200. The surge in regional trading arrangements prompts many questions that *Global Economic Prospects* 2005 takes up:

- What types of regional and bilateral arrangements are most beneficial—and which types stifle development?
- Do these arrangements inspire deeper integration that multilateral trade agreements cannot?
- Do these arrangements contribute to—or detract from—incentives for countries to engage in the multilateral Doha trade talks?

The report concludes that, broadly speaking, regional trade agreements offer benefits to developing countries provided that these trade agreements do not occur behind a wall of protection or behind an increased role of protection. It also encourages countries negotiating regional trade agreements to make them as open as possible with respect to third parties and to use them to pursue broader trade liberalization rather than to avoid such policies and such an evolution.

In addition, the Bank is working with five other institutions in the context of the Integrated Framework for Trade-Related Technical Assistance (IF).[8] The IF has evolved into an important vehicle for mainstreaming trade issues into least developed country development strategies in a coordinated fashion, with the World Bank playing the role of lead institution. The Bank's intellectual and financial commitment to this project is critical to the success of the IF in both the short and long term. Canada is a strong supporter of the IF and, in addition to providing policy advice, contributed US$1.33 million to the IF Trust

[8] The other participants in the IF are the IMF, the International Trade Centre, the United Nations Conference on Trade and Development, the United Nations Development Programme and the World Trade Organization.

Fund. Canada is also one of two donor representatives on the IF Working Group and as such is a full partner with the six agencies in setting future directions for the IF.

Transparency and Accountability

Recognizing that transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations and that the "demonstration effect" of the Bank's own policies is important for developing country governments, Canada has been a major proponent of increased openness at the Bank. Canada and other donors have pushed the Bank and borrowing countries to improve consultations with local people—civil society organizations (CSOs) and non-governmental organizations (NGOs)—in borrowing countries, not only in the design and implementation of projects but also in the preparation of key policy documents, such as Country Assistance Strategies. The Bank has responded to concerns from shareholders by making public a growing number of documents. Following extensive Bank consultations with governments, civil society, the private sector and the media, the Bank's revised disclosure policy came into effect in January 2002.

Under this policy, the Bank now discloses the following to the public:

- documentation outlining key actions supported by a Poverty Reduction Support Credit following loan approval by Executive Directors;
- program documents for other adjustment loans, with the consent of the borrower, following Executive Board approval of the operation;
- a broad range of Operations Evaluation Department reports after they have been released to Executive Directors;
- environmental safeguard assessments for all projects before project appraisal begins;
- concluding remarks of the Executive Board chair on Country Assistance Strategies (CASs), Transitional Support Strategies and CAS Progress Reports that are themselves disclosed;
- concluding remarks on policy and strategy papers on a case-by-case basis; and
- archived documents after 20 years (or 5 years for types of documents now routinely disclosed).

Substantial headway was made during the 13th IDA replenishment negotiations in expanding transparency and policy dialogue with borrowers and civil society. For the first time six representatives of IDA borrowers participated in formal discussions of the IDA policy framework. IDA donors also decided to release all of their background policy discussion papers to the public in draft form and took the unprecedented step of seeking public comment on their draft report, which defines the IDA13 policy framework.

More progress was made during the IDA14 replenishment meetings in 2004 and early 2005. Borrower participation and publication of IDA14 documents continued. In September 2004 the World Bank agreed to the publication of

individual country ratings under the annual IDA Country Policy and Institutional Assessment (CPIA) exercise to assess economic, social and governance indicators of IDA countries, starting in IDA14. This will provide client countries and other stakeholders with transparent information about CPIA methodology, findings and ratings for all IDA countries, which, in turn, should enhance the quality and robustness of the ratings, as well as public confidence in IDA's performance assessment.

Transparency also requires better consultation with those affected by projects that the Bank supports. Under President James Wolfensohn, the Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the Inspection Panel investigate whether the Bank has abided by its policies and procedures. Canada has been one of the major supporters of the work of the Inspection Panel. In FY 2004 the Panel received six new requests for inspection involving Bank projects in the Philippines (Manila Second Sewerage Project), Cameroon (Petroleum Development and Pipeline Project), Mexico (Indigenous and Community Biodiversity Project), Colombia (Cartagena Water Supply, Sewerage and Environmental Management Project), and India (Mumbai Urban Transport Project, two requests). Requests for inspection, Panel recommendations, reports and management recommendations can all be accessed at www.worldbank.org/inspectionpanel.

The Bank engages with civil society across a broad range of activities, including providing input for poverty assessments, national environmental action plans and other key Bank analytical tools. Particular emphasis has been placed on expanding partnerships with outside groups as more Bank operations are framed in the context of Poverty Reduction Strategy Papers, which embody participatory approaches at the macro level. CSO and NGO representatives from developing countries are now consulted regularly in the preparation of Bank Country Assistance Strategies. Information on the participation of CSOs and NGOs is now included in Bank project appraisal documents.

With the phasing out of the World Bank–NGO Committee in late 2000, the World Bank's Civil Society Team has been working with a number of prominent CSO networks to establish new venues for dialogue on policy and process at the global level. These mechanisms include the Joint Facilitation Committee; more structured and earlier consultations around the Bank's policy research; strategic policy workshops on emerging controversial issues; global video-dialogues; and thematic forums. The Bank is also engaged in the Bridge Initiative, which is an effort to promote more informed and constructive public debate among global policy-makers and leaders in the global social justice movements, such as the organizers of the World Social Forum.

Within Canada NGOs have participated in a regular series of government meetings and conferences on such issues as multilateral debt, the environment, IDA and Africa. The Canadian government has benefited greatly

from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process, the views of Canadian NGOs have helped shape Canada's position in Bank project and policy discussions.

The World Bank's Business Plan and Administrative Budget

Recognizing that its corporate planning needs to be more closely aligned with efforts to achieve the Millennium Development Goals, the Bank has moved to a three-year budgetary and corporate-planning cycle. In June 2004 Executive Directors approved a net FY 2005 administrative budget of US$1,497.6 million, representing a nominal increase of some 4.1 per cent over the approved budget for FY 2004. Given growing resource pressures and the need for the Bank to prioritize its operations, Executive Directors recently have increased their focus on the Bank's strategic planning and budgetary processes. Executive Directors' offices are now involved in the budget formulation process much earlier than they have been in the past. Going forward, the Bank will work with the Executive Directors to make the budget process more results-based and linked to well-defined key performance indicators within a multi-year framework. Aside from being consistent with its shareholders' desire to make the allocation of aid more results-based, the Bank anticipates that the new process will reduce the cost of preparing the budget itself and increase flexibility.

FY 2004 IBRD Financial Results

As a development institution, the IBRD does not maximize profit. Instead, it aims to earn a return on its assets that is sufficient to ensure its financial strength and sustain its development activities on an ongoing basis. The IBRD usually earns a net return on its assets of about 1 per cent per annum. In FY 2004 the IBRD managed to achieve a net return on assets of 1.2 per cent. The IBRD's main financial risk rests with the credit quality of its disbursed loan portfolio. At the end of FY 2004 the IBRD's equity-to-loans ratio, which is a summary measure of the institution's risk-bearing capacity, was 29.4, compared to 26.6 in FY 2003. These levels are considered sustainable.

Principal and charges totalling US$728 million from four IBRD borrowers[9] were recorded in "non-accrual" status at the end of FY 2004. No IBRD borrower entered into non-accrual status during the fiscal year. During FY 2004 the IBRD held provisions equivalent to about 3.5 per cent of its outstanding loan portfolio against anticipated losses. The Bank follows very conservative investment and hedging policies. In FY 2004 the IBRD raised US$12.5 billion in medium- and long-term debt on international capital markets to fund its operations. This was US$6.8 billion lower than in FY 2003. All proceeds from new funding are initially invested in the IBRD's liquid asset portfolio until they are required for IBRD operations. The IBRD strategically

[9] Iraq, Liberia, Seychelles and Zimbabwe.

repurchases, calls or prepays its debt to reduce the cost of borrowing and to reduce the exposure to refunding requirements in a particular year or to meet other operational requirements. In FY 2004 the IBRD repurchased or called US$4.0 billion of its outstanding borrowings. The IBRD enters into currency and interest rate swaps to convert US dollar and non-US dollar fixed-rate borrowings into US dollar variable rate funding for its loans. The IBRD does not enter into derivatives for speculative purposes.

The process and procedures under which the IBRD manages its financial risk profile continue to evolve as its activities change in response to market, credit, product and other developments. The Executive Board and its Audit Committee periodically review trends in the IBRD's risk profiles and performance as well as any significant developments in its risk management policies and controls.

Allocation of FY 2004 Net Income

IBRD net income supports its development objectives. In July of each year Executive Directors recommend to Governors specific allocations from the previous year's net income. IBRD "allocable" net income, after reserves, was US$995 million in FY 2004. In addition to providing funding for IDA operations and heavily indebted poor country (HIPC) debt reduction, net income allows the IBRD to respond to unforeseen humanitarian crises and to provide grants, from time to time, for other development causes. Governors approved allocations from FY 2004 net income of US$300 million to IDA, US$240 million to the HIPC Trust Fund, US$50 million to the Debt Reduction Facility for IDA-Only Countries and US$405 million to the Bank's Surplus Account.

How to Access Information at the World Bank

The World Bank's Public Information Centres, in Washington and in many of the Bank's regional offices, provide a wide range of Bank documents, including the following:

- project information documents;
- project appraisal documents (after approval by the Board of Executive Directors);
- country economic and sector work documents and sectoral policy papers;
- the annual report and the *World Development Report*;
- *Monthly Operational Summary* and *International Business Opportunities*;
- environmental data sheets, assessments, analyses and action plans;
- *World Debt Tables* and *Global Development Finance*; and
- Operations Evaluation Department précis.

These materials and a variety of World Bank and World Bank Institute special studies are available through the Bank's InfoShop located at:

701 18th Street N.W.
Washington, DC 20433, USA
Phone: (202) 458-4500
Fax: (202) 522-1500
E-mail address: pic@worldbank.org

Additional up-to-date information is also available on the Internet at www.worldbank.org/infoshop.

Managing Canada's Interests at the World Bank

Finance Minister Ralph Goodale, as Canada's Governor at the World Bank, is responsible for the management of Canada's interests at the Bank. Minister Goodale exercises his influence through exchanges of views at the Development Committee and annual meetings of the Board of Governors of the Bank, and through discussions with the President of the Bank. Within the Development Committee, Minister Goodale represents the interests of Canada and all other members of the Canada/Ireland/Commonwealth Caribbean constituency.

The Department of Finance consults closely with CIDA and Foreign Affairs Canada in formulating Canadian policies related to Bank issues. Paul Thibault, the President of CIDA, is Canada's Alternate Governor for the World Bank.

Governors have delegated decision making for a wide variety of day-to-day operational, policy and administrative matters to the Bank's Executive Board. The Executive Board formally approves all loans, credits, projects and World Bank policies; discusses Country Assistance Strategies; and provides strategic advice to Bank management as appropriate. Of 24 Executive Directors on the Board, 12 are from developing and transition countries and 12 are from developed countries. Marcel Massé, who was elected Executive Director in September 2002 and re-elected in October 2004 by constituency Governors, represents Canada and the 12 other members of the constituency.

Canadian Executive Director's Office at the World Bank

One of the key roles of the office is to provide advice and assistance to Canadian individuals and businesses on doing business with the Bank. Over the past two decades, the Executive Director's office has helped introduce roughly 1,000 Canadian businesses to such opportunities through seminars and workshops held across the country and by organizing direct contacts in Washington. Beyond its formal work, the office provides a valuable bridge between the Bank and Canadian constituents—individuals, NGOs, federal and provincial agencies, associations, the academic community and parliamentarians, among others.

In addition to the Canadian Executive Director's office, the Canadian Embassy in Washington has established an Office for Liaison with International Financial Institutions that can advise Canadians on how to participate in Bank-financed projects. The office can be reached at (202) 682-7788.

Another point of contact for Canadian businesses is the Bank's Business Web page at www.worldbank.org/opportunities. Canadian firms, organizations and institutions that are interested in pursuing opportunities created by Bank-financed projects should consult the Bank's Web site on a regular basis. Information on CIDA's cooperation with and support for World Bank and World Bank-supported programs can be found at www.worldbank.org/canada.

Members of the Executive Director's Office

Executive Director	Marcel Massé (Canada)
Alternate Executive Director	Gobind Ganga (Caribbean)
Senior Advisor	Grant Cameron (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Donal Cahalane (Ireland)
Senior Advisor	Stephen Free (Canada)
Advisor	Sharmila Prakash Khare (Canada)
Advisor	Lisaveta Valantina Ramotar (Caribbean)
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Canadian Procurement at the World Bank

Canadian firms benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. Canadian expertise in the power, environmental, engineering, public service reform, health, education, financial and transportation sectors has led to procurement opportunities for Canadian firms for developing country projects around the globe.

In FY 2004 Canadian companies provided US$71 million in goods and services under Bank-funded projects associated with investment lending with, as in past years, consulting services accounting for approximately half this amount. For example, Cowater International Inc. provided advisory services and capacity building for the implementation of reforms under a US$5.99-million Municipal Financial Management Technical Assistance project with the Government of South Africa. Développement International Desjardins and the Montréal-based International Civil Aviation Organization also gained World Bank financing to provide technical assistance to developing countries. Canadian companies such as Tecsult International, CIMA International, SNC Lavalin, and Geomar International Inc. were successful in gaining financing from the World Bank in 2004 for various consulting services.

The Executive Director's office collaborated with several institutions and government agencies to promote business opportunities with the Bank. Through their participation in Canada in several events and conferences such as International Development Days, the annual meeting of the Saskatchewan Trade and Export Partnership and special events organized by the World Trade Centre in Montréal, Toronto and Halifax, World Bank representatives provided information to the Canadian private sector on how to do business with the Bank.

In 2004 the Canadian Executive Director's office undertook several initiatives to strengthen commercial and other ties between Canada and the World Bank Group. The relationship between the World Bank and Canada was highlighted by the participation of World Bank President James Wolfensohn at the 10th Conference of Montreal in June 2004.

Over the course of 2004 the World Bank and the Canadian Executive Director's office helped launch the Private Sector Liaison Officer (PSLO) Network for Canada to promote increased dialogue between the Canadian private sector (companies, non-governmental organizations, and academic institutions) and the World Bank Group. This network was established following months of work and strong collaboration between the World Bank, the Canadian Executive Director and the Office of Liaison with international financial institutions at the Canadian Embassy in Washington. The World Bank offers two annual training programs to the PSLOs and provides them with information and documentation on the Bank's projects and programs to share with the private sector. The World Bank has an active PSLO Network in Europe and plans to expand the Network to include several countries in Asia and Latin America. The Canadian organizations participating in the PSLO Network are Business New Brunswick, New Brunswick; the World Trade Centre, Montréal, Quebec; the Canadian Manufacturers and Exporters, Ontario; Manitoba Trade and Investment, Manitoba; Saskatchewan Trade and Export Partnership, Saskatchewan; and Alberta Economic Development, Alberta. The regional office of International Trade Canada in Vancouver is acting as the PSLO for British Columbia. In 2005 the Bank intends to finalize the PSLO Network in British Columbia and to work with additional partners in Nova Scotia.

Trust Fund Activities

Consultant trust funds (which, in Canada's case, are financed by CIDA and administered by the Bank) are a source of funds for identifying and preparing Bank projects, programs or analytical work focused on poverty reduction. These trust funds support the participation of Canadian consultants, individuals or firms in activities and programs funded by the Bank. In FY 2002 the Board of Directors approved a package of reforms for consultant trust funds that simplified and standardized existing eligibility criteria. These reforms have resulted in standardized consultant trust fund framework agreements for all donors. The changes strengthened the alignment of the consultant trust funds with the Bank's overall strategic development priorities and resource-planning processes.

The Bank has also proposed a further set of reforms to the Consultant Trust Fund program that would effectively see the closure of all tied trust funds by the end of FY 2007. Canada is supportive of these reforms and is now in the process of winding down our own consultant trust fund. With current resource levels, it is expected that the Canadian Consultant Trust Fund will close by the end of FY 2006. Going forward, Canadian consultants will be able to access a much wider range of opportunities by becoming eligible for contracts funded by any consultant trust fund. Access to procurement opportunities is also expected to become much easier with the July 2004 launch of the "eProcurement system" for the selection of consultants and the further development of the Canada-wide PSLO Network, which aims to be a link between the Bank and the Canadian private sector.

CIDA's framework agreement with the Bank, signed in June 1995, governs all of its other single-donor trust fund arrangements with the Bank, the World Bank Institute and the Global Environment Facility. These primarily comprise project co-financing arrangements but also include prominent specific trust funds like the Canada Persistent Organic Pollutants Fund (C$20 million) and the C$5-million trust fund with the World Bank Institute. This trust fund, which currently extends to FY 2005, enables the World Bank Institute to engage Canadian expertise in the preparation and delivery of its training programs in countries eligible for Canadian official development assistance. Allocations are made annually to five or six World Bank Institute programs, based on their compatibility with Canadian development assistance priorities.

In addition, CIDA participates in a number of influential multi-donor trust funds targeted at specific development issues. These include trust funds for the Prototype Carbon Fund (US$10 million), the Public-Private Infrastructure Advisory Facility (C$350,000), the Cities Alliance (C$350,000), the Asia Sustainable and Alternative Energy Fund (C$4.25 million total), the World Bank–WHO Health Systems (US$750,000 total) and the Global Gas Flaring Reduction Partnership (C$400,000 annual contribution).

International Finance Corporation

The International Finance Corporation (IFC), created in 1956, supplements the activities of the IBRD and IDA by providing financing on commercial terms for productive private sector enterprises that lack access to private capital markets. The institution is the largest multilateral source of loan and equity financing for the private sector in the developing world. The institution provides both loans and equity investments; loans represent 74 per cent of the IFC's disbursed portfolio. Through its co-financing arrangements, it leverages substantial private financing for development purposes. By investing alongside the IFC (as Canadian financial institutions have done since the mid-1990s through their participation in the IFC loan syndication program), investors gain valuable access to potential new customers, attain a high-yielding asset and, given the IFC's good relations with developing country governments, benefit from a degree of implicit political risk coverage.

In FY 2004 the IFC signed investment commitments totalling US$5.63 billion for 217 projects in the developing world, compared to US$5.03 billion in FY 2003. Of this amount, US$0.88 billion was mobilized through loan syndications, compared to US$1.18 billion in FY 2003. Of the US$4.75 billion of the IFC's own financing, US$3.40 billion was provided in the form of loans, US$171 million in the form of structured finance products (including guarantees), US$1.13 billion as equity investments and quasi-equity investments, and US$60 million for risk management products. The IFC earned net income of US$993 million in FY 2004, compared to US$487 million in FY 2003.

While the bulk of the IFC's financing is provided to middle-income countries, the institution is increasingly targeting frontier markets (countries such as those in Africa, traditionally of little interest to private investors). Canada supports this stronger focus on frontier markets, while recognizing the difficulties posed by higher business costs and financial risks.

Canada supports a number of technical assistance programs through the IFC's Technical Assistance Programme, which was instituted in 1988 and manages technical assistance programs funded by bilateral and multilateral donors. In FY 2004, 133 technical assistance projects were approved with a total value of $23 million. The Technical Assistance Programme now has 44 active funding agreements with 20 donor countries or regions, in addition to the IFC as a donor. Through FY 2004 donors have provided cumulative contributions of US$188 million and approved more than 1,380 technical assistance projects under this program.

Donors also provided other funds in support of small- and medium-enterprise project development facilities, the Sustainable Business Assistance Program focusing on social and environmental issues and investment climate initiatives. In addition to its consultant trust funds with the IFC, CIDA has also provided funding for the Africa Project Development Facility, Pacific Enterprise Development Facility, Program for Eastern Indonesia SME Assistance, SouthAsia Enterprise Development Facility, South East Europe Enterprise Facility, Mekong Private Sector Development Facility, Private Enterprise Partnership and Foreign Investment Advisory Service.

Canada maintains a 3.44-per-cent share of IFC capital. It has paid in US$81.3 million to the IFC's capital stock. Given the risks associated with its financial operations, all of the IFC's authorized capital is paid-in.

Canada's Financial Participation in the IFC

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US$81.3 million	3.44	3.39

Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to encourage foreign investment in developing countries by providing viable investment insurance against non-commercial risks (e.g. expropriation, transfer restrictions, breach of contract, and war and civil disturbance), thereby improving or creating investment opportunities. MIGA's Canadian clients include Barrick Gold Corporation, Hydro-Québec International and The Bank of Nova Scotia.

In FY 2004 MIGA approved 55 guarantees totalling US$1.1 billion for 35 projects, of which 20 were in IDA-eligible countries. IDA-eligible countries also benefited in FY 2004 from 35 MIGA technical assistance efforts. During FY 2004 MIGA also increased its support for investors from developing countries: it supported eight investments made by developing country enterprises in other developing countries.

Canada's Financial Participation in MIGA

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US$56.535 million	3.11	2.74
Of which paid-in US$10.732 million		
Of which callable US$45.803 million		

Future Challenges

That millions of the world's poorest are unable to share in the benefits of globalization is both an economic and a moral issue, and has made development a prominent theme of G-7/G-8 meetings and of policy discussions in other multilateral fora (e.g. in the UN system, regional summits and World Trade Organization negotiations). Effective use of scarce resources is central to international discussions of development issues. At the International Conference on Financing for Development in March 2002, developed and developing country leaders agreed that more must be done to channel resources in support of development and that, for their part, developing countries have a responsibility to ensure that these resources are used effectively. Donors, conscious of the uneven results of decades of official development assistance, want to ensure that scarce assistance resources produce measurable results. This requires stronger efforts by developing countries to create sound policy and institutional environments. The Bank, as the world's largest provider of development financing, plays a crucial role in providing advisory and financial assistance to countries to help strengthen their economic, social and governance policies. Going forward this will remain one of the Bank's more pressing challenges.

President James Wolfensohn has indicated his intention to leave the World Bank Group after his term expires on May 31, 2005. A new President will be selected. With the change in leadership and shareholder interest in further enhancing the effectiveness of the World Bank Group, this is a window of opportunity for Canada to press for reforms to maximize the Bank's impact on poverty reduction and sustainable growth in developing member countries.

More effective measurement and monitoring of development results is a critical element of the development effectiveness agenda, and Canada will continue to stress the importance of results-based indicators. While the Bank has embarked on a program to improve its results measurement and monitoring, adapting and refining the Bank's results measurement work to different developing country poverty reduction strategies will be a substantial challenge over the medium term.

Recognizing the importance of country-owned development strategies, the major challenge for the future will be to orient the Bank's operations towards those clients that have strong economic and governance frameworks in place and to help convince countries with weak policy frameworks of the need to alter their policies. As the Bank moves increasingly to support nationally owned development strategies, a key challenge will be to work with developing country governments and civil society to ensure that there is sufficient capacity on the ground to develop and implement these strategies. The Bank will also have to work increasingly with other partners, both multilateral and bilateral, on the basis of their comparative institutional strengths, to improve the quality and effectiveness of development assistance within individual countries.

Without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact. Moreover, the effectiveness of the Bank's own operations must be enhanced through closer partnerships with bilateral donors and international organizations. Cooperation with UN agencies, in terms of measuring global and national progress towards the Millennium Development Goals, will be key, given the high operational priority the Bank attaches to helping countries achieve these goals.

The Bank will continue to provide support to developing countries facing a broad range of institutional, economic and social challenges. The Bank's strategy for contributing to capacity building and poverty reduction in low-income countries under stress will continue to evolve based on its operational experience. However, the Bank's future challenges are not limited to the world's poorest countries. A majority of the world's poor live in middle-income countries, and over the coming year the Bank will be looking at how best to address the problems facing this particular segment of the world's poorest.

Establishing clear development priorities and being more selective in its operations will be critical to future success. Canada will continue to stress the need for the Bank to be much more selective and transparent in its operations.

JOINT ISSUES

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods Institutions overlap, or where there is a requirement for close cooperation and coordination of activities. The heads of both institutions have put considerable effort into increasing cooperation. At the International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, leaders from both the developing and developed worlds asked the Bank and Fund to explore innovative ways to enhance the voice and participation of developing countries in their decision-making processes. Three particular examples—Bank/Fund measures to enhance developing country voice, the joint preparation of the debt relief initiative for heavily indebted poor countries, and joint work on a new long-term debt sustainability framework for low-income countries—are examined below.

Enhancing the Voice and Participation of Developing Countries in the Bretton Woods Institutions

Responding to the call at the March 2002 International Conference on Financing for Development that the Bank and the Fund find "innovative and pragmatic" ways to enhance the participation of developing and transition economies in their decision making, Ministers discussed the voice issue during the 2003 and 2004 meetings of the Development Committee of the Boards of Governors of the World Bank and the IMF.

Much progress has been made in addressing capacity constraints in the offices of developing country Executive Directors at both institutions. Measures have been taken to deal with the problem of weak capacity within developing country capitals to assess important World Bank and IMF policy issues from a developing country perspective and to make Bank and Fund operations more responsive to borrowers' needs.

In April 2003 Executive Directors approved an increase in the professional staff complement of the two Executive Directors representing African countries at each institution. The two institutions are also making greater efforts to involve staff from developing country Executive Directors' offices in their internal training programs. The World Bank has expanded its secure access to Executive Board documents to developing country capitals. Following the September 2003 Development Committee meeting, the World Bank established a secondment program to expose mid-level developing country officials directly to World Bank operations, with the object of improving their understanding of the Bank's operational and decision-making processes. In early 2005 the World Bank is expected to host 18 officials from developing countries, including 10 from Africa. Separately from the World Bank and IMF, some bilateral donors are working to establish an independent policy advisory unit that developing countries could draw on to seek policy advice on key World Bank and IMF policy issues.

More broadly, the World Bank is moving to enhance developing country influence and participation by increasing its efforts to involve developing countries in the design and formulation of its Country Assistance Strategies and non-lending programs. The Bank is also making greater efforts to focus its Country Assistance Strategies on priorities identified by developing countries themselves in their Poverty Reduction Strategy Papers. Within IDA, borrower representatives fully participated in the five meetings convened between February 2004 and February 2005 to discuss operational priorities for the 14th IDA replenishment period (2005–2008).

Looking ahead, the Development Committee is expected to revisit this issue at its next meeting in April 2005. In October 2004 the Development Committee urged the Bank and Fund Boards to cooperate closely together in exploring all relevant options, to strive to achieve consensus amongst all members, and to prepare a report for its April 2005 meeting. The report is expected to deal with the difficult remaining issues of Board composition and voting structure. At present there is no consensus among members to alter either the voting structure or the composition of the Executive Boards at the World Bank and the IMF.

Multilateral Debt Relief

In September 1996 the IMF and World Bank launched the Heavily Indebted Poor Countries Initiative (HIPC Initiative) to reduce the unsustainable debt burdens of the world's poorest countries. After a review of the HIPC Initiative in 1999, a number of modifications were approved to provide faster, deeper and broader debt relief and to strengthen the links between debt relief, poverty reduction and social policies. Currently 42 countries are being considered for assistance under the HIPC Initiative. Guyana, a member of Canada's constituency at the World Bank, reached its HIPC completion point and completed the process in December 2003.

Good progress has been made. As of the end of December 2004, 27 countries were benefiting from debt relief under the HIPC Initiative. Fifteen of them (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Senegal, Tanzania and Uganda) have completed the HIPC process and received irrevocable debt relief. These countries will receive over US$53 billion in debt relief under the HIPC Initiative and additional measures, and they will benefit from an average two-thirds reduction in their debt burdens. Importantly, for these countries, social spending has dramatically increased while average debt service has fallen significantly, and debt ratios have declined to levels similar to many other poor, but initially less indebted, countries.

In 2004 both the Bank and the Fund agreed to extend the sunset clause of the HIPC Initiative for another two years, to end-2006, in order to give countries that have yet to enter the HIPC process more time to take the necessary steps, including reform programs supported by the Bank and the Fund.

Canada's Actions in Support of the HIPC Initiative

Canada has been at the forefront of international efforts for a swift and decisive approach to the debt burdens of the world's poorest countries, both multilaterally and bilaterally. Multilaterally, Canada has consistently advanced the debt relief agenda by:

- announcing in February 2005 Canada's commitment to cover the debt-service obligations of eligible reforming low-income countries to IDA and the African Development Fund. Canada urged other donors to do the same. Additionally, Canada called on donors to agree on the need to provide further IMF debt relief and to identify the best way to finance this cost. The benefits would be available until 2015 to all countries that have completed the HIPC process and to other low-income (IDA-only) countries that have the ability to use these savings for development. This provides poor countries with immediate fiscal space to implement their poverty reduction strategies;
- leading efforts in the G-7 for the enhanced HIPC debt initiative (announced in September 1999), as well as continually working to improve the effectiveness of the initiative, as evidenced by Canada's leadership role on the G-8 Leaders Statement on Debt Relief, issued at the Kananaskis Summit in June 2002;
- committing C$75 million in Budget 2003 to further debt relief efforts, bringing our total contribution to the HIPC debt relief trust funds at the IMF (C$65 million) and World Bank (C$250 million) to C$315 million. This will help to ensure timely debt relief for deserving countries;
- calling on all bilateral creditors to follow Canada's lead and to put in place a moratorium on debt payments from reforming HIPCs;
- supporting the provision of additional debt relief ("topping-up" assistance) at the completion point of the HIPC process for those countries negatively affected by, for example, falling commodity prices. Canada has also called for a more generous method of calculating the amount of debt relief that should be offered to countries in need of topping-up assistance;
- calling for flexibility in linking HIPC debt relief to the Poverty Reduction Strategy Paper process to avoid delaying debt relief to deserving countries; and
- strongly supporting continuing World Bank and IMF efforts to develop a long-term debt sustainability framework for low-income countries and the debt distress-based grant allocation framework to be used under IDA14.

Bilaterally, Canada is helping the poorest countries by:

- no longer collecting debt payments from 11 reforming HIPCs on loans outstanding as of March 31, 1999 since January 1, 2001, and from another 2 countries—Democratic Republic of Congo and Rwanda—since Budget 2004, under the Canadian Debt Initiative (CDI);
- forgiving, also under the CDI, all remaining debts owed to Canada for eligible countries that have completed the HIPC process—Benin, Bolivia, Ethiopia, Ghana, Guyana, Madagascar, Senegal and Tanzania;

Canada's Actions in Support of the HIPC Initiative (cont'd)

- forgiving C$1.3 billion in official development assistance (ODA) debt to 46 developing countries since 1978, including all of its ODA debt to 22 HIPCs, at a cost of C$900 million; of the HIPCs, only Myanmar (formerly Burma) currently has ODA debt to Canada; and
- providing development assistance since 1986 on a grant basis so as to avoid worsening the debt problems in the poorest countries.

Long-Term Debt Sustainability in Low-Income Countries

Debt sustainability is an essential condition for economic stability, which, in turn, is a foundation for economic growth and development. Many low-income countries have struggled to maintain their external debt at sustainable levels while also trying to meet development objectives such as the Millennium Development Goals (MDGs). The economic weakness of many poor countries leaves them vulnerable to exogenous shocks, such as a fall in primary commodity prices, which could alter their debt sustainability prognosis. Excess lending, even on concessional terms, could lead to unsustainable debt burdens going forward.

In the spring of 2004, the World Bank and International Monetary Fund introduced a new Debt Sustainability Framework in Low-Income Countries, which seeks to make that challenge less difficult by providing guidance on new lending to low-income countries whose main source of financing is official loans. The key features of the new framework include the following:

- The debt sustainability framework is a "forward-looking" approach that aims to guide borrowing and lending decisions for low-income countries on terms that allow borrowing countries to devote resources towards achieving the MDGs, while also staying within their means to repay loans. By taking into account each country's specific circumstances, the framework tries to help borrowing countries balance their need for funds with their current and prospective ability to repay their debts. Linking a country's borrowing potential to its current and prospective ability to service debt should help countries avoid accumulating excessive debts.
- This approach puts responsibilities on both borrowers and creditors. The low-income countries that seek new loans are responsible for maintaining debt sustainability. They must develop and strengthen policies and institutions that enhance their capacity to manage debt and reduce their vulnerability to exogenous shocks ranging from international trading conditions to natural disasters. Among other things, they will need to keep new borrowing in step with their capacity to repay loans, diversify exports and build up foreign exchange reserves.

- Creditors and donors, for their part, need to comprehensively review long-term debt projections, which incorporate forward-looking analysis and account for possible shocks. Potential creditors and donors should also consider giving additional resources in the form of grants and/or highly concessional loans for low-income countries with high levels of debt distress to reduce the possibility that these countries later experience debt distress. Creditors and donors also need to explore options that can help limit the potential impacts of adverse exogenous shocks or help low-income countries cope with them.

In response to this work and the lessons learned under the HIPC Initiative, Canada and its partners supported a new grant program at the Asian Development Fund. In late 2004 Canada and other donors agreed to a new grant allocation framework linked solely to debt distress indicators for both IDA and the African Development Fund going forward. Work to further enhance the debt sustainability framework for low-income countries will continue at both the World Bank and the IMF in 2005. In October 2004 the Development Committee also asked the Bank and the Fund to accelerate their work on means to help mitigate the impact of exogenous shocks on low-income countries and to report to their Boards at an early date.

Annex 1

Active IMF Lending Arrangements—As of December 31, 2004

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements—Total			**54,546**	**19,137**
Argentina	September 20, 2003	September 19, 2006	8,981	4,810
Bolivia	April 2, 2003	March 31, 2005	129	27
Brazil	September 6, 2002	March 31, 2005	27,375	10,175
Bulgaria	August 27, 2004	September 5, 2006	100	100
Colombia	January 15, 2003	April 14, 2005	1,548	1,548
Croatia, Republic of	August 4, 2004	April 3, 2006	97	97
Dominican Republic	August 29, 2003	August 28, 2005	438	306
Gabon	May 28, 2004	June 30, 2005	69	28
Paraguay	December 15, 2003	March 31, 2005	50	50
Peru	June 9, 2004	August 16, 2006	287	287
Romania	July 7, 2004	July 6, 2006	250	250
Turkey	February 4, 2002	February 3, 2005	12,821	907
Ukraine	March 29, 2004	March 28, 2005	412	412
Uruguay	April 1, 2002	March 31, 2005	1,989	140
Extended Fund Facility Arrangements—Total			**794**	**311**
Serbia and Montenegro	May 14, 2002	May 13, 2005	650	188
Sri Lanka	April 18, 2003	April 17, 2006	144	124

Annex 1

Active IMF Lending Arrangements—As of December 31, 2004 *(cont'd)*

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility Arrangements—Total			**3,328**	**1,693**
Albania	June 21, 2002	June 20, 2005	28	8
Azerbaijan	July 6, 2001	July 4, 2005	68	26
Bangladesh	June 20, 2003	June 19, 2006	400	252
Burkina Faso	June 11, 2003	June 10, 2006	24	17
Burundi	January 23, 2004	January 22, 2007	69	43
Cape Verde	April 10, 2002	April 9, 2005	9	2
Congo, Republic of	December 6, 2004	December 5, 2007	55	47
Congo, Democratic Republic of	June 12, 2002	June 11, 2005	580	53
Côte d'Ivoire	March 29, 2002	March 28, 2005	293	234
Dominica	December 29, 2003	December 28, 2006	8	5
Gambia, The	July 18, 2002	July 17, 2005	20	17
Georgia	June 4, 2004	June 3, 2007	98	84
Ghana	May 9, 2003	May 8, 2006	185	105
Guyana	September 20, 2002	March 19, 2006	55	37
Honduras	February 27, 2004	February 26, 2007	71	51
Kenya	November 21, 2003	November 20, 2006	225	200
Kyrgyz Republic	December 6, 2001	April 5, 2005	73	10
Lao People's Democratic Republic	April 25, 2001	April 24, 2005	32	14
Madagascar	March 1, 2001	March 1, 2005	92	11
Mali	June 23, 2004	June 22, 2007	9	8
Mongolia	September 28, 2001	July 31, 2005	28	16
Mozambique	July 6, 2004	July 5, 2007	11	10
Nepal	November 19, 2003	November 18, 2006	50	36
Nicaragua	December 13, 2002	December 12, 2005	98	42
Rwanda	August 12, 2002	August 11, 2005	4	2
Senegal	April 28, 2003	April 27, 2006	24	17
Sierra Leone	September 26, 2001	September 25, 2005	131	14
Sri Lanka	April 18, 2003	April 17, 2006	269	231
Tajikistan	December 11, 2002	December 10, 2005	65	29
Tanzania	August 16, 2003	August 15, 2006	20	11
Uganda	September 13, 2002	September 12, 2005	14	6
Zambia	June 16, 2004	June 15, 2007	220	55
Total			**58,668**	**21,142**

Annex 2

IBRD Loans and IDA Credits— Fiscal Year 2004 (July 1, 2003–June 30, 2004)

	IBRD	IDA	Total	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
By area				
Africa	0.0	4,115.9	68	4,115.9
East Asia and Pacific	1,665.5	907.2	30	2,572.7
Europe and Central Asia	3,012.9	546.2	52	3,559.1
Latin America and the Caribbean	4,981.6	338.2	50	5,319.8
Middle East and North Africa	946.0	145.0	11	1,091.0
South Asia	439.5	2,982.1	34	3,421.6
Total	**11,045.4**	**9,034.6**	**245**	**20,080.1**
By theme				
Economic management				428.6
Public sector governance				3,374.0
Rule of law				503.4
Financial and private sector development				4,176.6
Trade and integration				1,212.7
Social protection and risk management				1,577.0
Social development, gender, inclusion				1,557.8
Human development				3,079.5
Urban development				1,358.1
Rural development				1,507.8
Environment and natural resources management				1,304.6
Total				**20,080.1**

Annex 3

IBRD Loans and IDA Credits to Developing Countries

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
			(in millions of US dollars)			
By fiscal year (July–June)						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969–73	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974–78	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979–83	711	44,908.0	518	16,368.1	1,229	61,276.1
1983–84	129	11,947.2	106	3,575.0	235	15,522.2
1984–85	131	11,356.3	105	3,028.1	236	14,384.4
1985–86	131	13,178.8	97	3,139.9	228	16,318.7
1986–87	127	14,188.2	108	3,485.8	235	17,674.0
1987–88	118	14,762.0	99	4,458.7	217	19,220.7
1988–89	119	16,433.2	106	4,933.6	225	21,366.8
1989–90	121	15,179.7	101	5,522.0	222	20,701.7
1990–91	126	16,392.2	103	6,293.3	229	22,685.5
1991–92	112	15,156.0	110	6,549.7	222	21,705.7
1992–93	122	16,944.5	123	6,751.4	245	23,695.9
1993–94	124	14,243.9	104	6,592.1	228	20,836.0
1994–95	134	16,852.6	108	5,669.2	242	22,521.8
1995–96	129	14,656.0	127	6,864.0	256	21,520.0
1996–97	141	14,525.0	100	4,622.0	241	19,147.0
1997–98	151	21,086.2	135	7,507.8	286	28,594.0
1998–99	131	22,182.3	145	6,811.8	276	28,994.1
1999–00	97	10,918.6	126	4,357.6	223	15,276.2
2000–01	91	10,487.1	134	6,763.5	225	17,250.6
2001–02	96	11,451.8	133	8,067.6	229	19,519.4
2002–03	99	11,230.7	141	7,282.5	240	18,513.0
2003–04	87	11,045.4	158	9,034.6	245	20,080.1
Total*	**4,810**	**393,748.0**	**3,745**	**151,390.6**	**8,555**	**545,139**

* Note: Joint IBRD/IDA operations are counted once as IBRD operations. When more than one loan is made for a single project, the operation is counted only once. Amounts may not add to totals because of rounding.

Annex 4

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2004

	IBRD	IDA	Total
	Amount	Amount	Amount
		(in millions of US dollars)	
By calendar year			
Cumulative to December 1960	133.5	–	133.5
1961	8.2	–	8.2
1962	3.7	–	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (January–June)	92.8	23.4	116.2

Annex 4

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2004 *(cont'd)*

	IBRD Amount	IDA Amount	Total Amount
		(in millions of US dollars)	
By fiscal year			
1987–88	182.1	47.4	229.5
1988–89	197.0	45.0	242.0
1989–90	164.0	41.0	205.0
1990–91	139.0	34.0	173.0
1991–92	131.0	38.0	169.0
1992–93	151.0	41.0	192.0
1993–94	115.0	69.0	184.0
1994–95	123.0	48.0	171.0
1995–96	169.0	56.0	225.0
1996–97	113.0	42.0	155.0
1997–98	82.0	32.0	114.0
1998–99	69.0	37.0	106.0
1999–00	73.0	22.0	95.0
2000–01	45.0	15.0	60.0
2001–02	48.0	16.0	64.0
2002–03	41.0	20.0	61.0
2003–04	41.0	30.0	71.0
Total	**3,008**	**951**	**3,959**
Per cent of total disbursements	2.4	1.8	2.2
Per cent of FY 2004 disbursements	3.8	2.0	2.8

Annex 5

IBRD Loans and IDA Cumulative Lending by Country— As of June 30, 2004

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Borrower or guarantor				
Afghanistan	–	838.3	33	838
Africa region	259.8	425.8	19	686
Albania	–	757.9	52	758
Algeria	5,911.8	–	72	5,912
Angola	–	415.4	14	415
Argentina	21,633.2	–	120	21,633
Armenia	12.0	808.7	35	821
Australia	417.7	–	7	418
Austria	106.4	–	9	106
Azerbaijan	–	622.0	22	622
Bahamas	42.8	–	5	43
Bangladesh	46.1	10,994.6	185	11,041
Barbados	118.4	–	12	118
Belarus	192.8	–	4	193
Belgium	76.0	–	4	76.0
Belize	86.2	–	9	86
Benin	–	814.5	54	815
Bhutan	–	101.1	11	101
Bolivia	314.3	1,886.2	85	2,200
Bosnia and Herzegovina	–	931.3	45	931
Botswana	280.7	15.8	25	297
Brazil	34,450.1	–	291	34,450
Bulgaria	1,951.5	–	31	1,951
Burkina Faso	1.9	1,465.6	63	1,468
Burundi	4.8	1,012.6	56	1,017
Cambodia	–	607.2	24	607
Cameroon	1,347.8	1,227.0	75	2,575
Cape Verde	–	197.9	18	198
Caribbean region	83.0	52.0	7	135.0
Central African Republic	–	448.5	27	449
Chad	39.5	993.6	46	1,033
Chile	3,920.9	19.0	66	3,940
China	28,492.5	9,946.7	254	38,439
Colombia	12,049.1	19.5	175	12,069
Comoros	–	132.4	19	132
Congo, Democratic Republic of	330.0	2,841.5	74	3,172
Congo, Republic of	216.7	333.3	26	550
Costa Rica	938.5	5.5	40	944
Côte d'Ivoire	2,887.9	2,042.5	87	4,930
Croatia	1,245.7	–	23	1,246
Cyprus	418.8	–	30	419
Czech Republic	776.0	–	3	776
Denmark	85.0	–	3	85
Djibouti	–	148.6	16	149
Dominica	4.0	19.3	6	23
Dominican Republic	1,088.5	22.0	39	1,111

Annex 5

IBRD Loans and IDA Cumulative Lending by Country—As of June 30, 2004 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
Eastern Africa	–	45.0	1	45
Ecuador	2,877.2	36.9	81	2,914
Egypt, Arab Republic of	4,900.4	1,984.0	108	6,884
El Salvador	981.4	25.6	36	1,007
Equatorial Guinea	–	45.0	9	45.0
Eritrea	–	445.4	12	445
Estonia	150.7	–	8	151
Ethiopia	108.6	4,503.5	90	4,612
Fiji	152.9	–	12	153
Finland	316.8	–	18	317
France	250.0	–	1	250
Gabon	227.0	–	14	227
Gambia	–	259.2	28	259
Georgia	–	772.8	34	773
Ghana	207.0	4,396.5	116	4,603
Greece	490.8	–	17	491
Grenada	17.0	23.5	6	41
Guatemala	1,404.8	–	40	1,405
Guinea	75.2	1,318.5	61	1,394
Guinea-Bissau	–	292.9	24	293
Guyana	80.0	334.4	32	414
Haiti	2.6	626.5	37	629
Honduras	717.3	1,435.3	71	2,153
Hungary	4,333.6	–	40	4,334
Iceland	47.1	–	10	47
India	30,915.9	30,564.3	448	61,480
Indonesia	28,276.8	1,668.9	305	29,946
Iran, Islamic Republic of	2,849.1	–	45	2,849
Iraq	156.2	–	6	156
Ireland	152.5	–	8	153
Israel	284.5	–	11	285
Italy	399.6	–	8	400
Jamaica	1,660.8	–	69	1,661
Japan	862.9	–	31	863
Jordan	2,319.7	85.3	71	2,405
Kazakhstan, Republic of	1,924.0	–	23	1,924
Kenya	1,200.7	3,612.7	131	4,813
Korea, Republic of	15,647.0	110.8	120	15,758
Kosovo (Serbia and Montenegro)	–	15.0	4	15
Kyrgyzstan	–	680.2	30	680

Annex 5

**IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2004** *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Lao People's Democratic Republic	–	722.9	36	723
Latvia	416.0	–	19	416
Lebanon	1,085.4	–	21	1,085
Lesotho	155.0	352.8	32	508
Liberia	156.0	114.5	33	271
Lithuania	490.9	–	17	491
Luxembourg	12.0	–	1	12
Macedonia (Former Yugoslav Republic of)	330.8	378.7	30	709
Madagascar	32.9	2,556.5	92	2,589
Malawi	124.1	2,209.5	86	2,334
Malaysia	4,150.6	–	88	4,151
Maldives	–	64.9	7	65
Mali	1.9	1,692.7	69	1,695
Malta	7.5	–	1	8
Mauritania	146.0	820.7	55	967
Mauritius	459.7	20.2	37	480
Mexico	35,659.0	–	192	35,659
Moldova	302.8	289.2	24	592
Mongolia	–	325.9	19	326
Morocco	8,658.1	50.8	135	8,709
Mozambique	–	2,560.0	47	2,560
Myanmar	33.4	804.0	33	837
Nepal	–	1,916.9	79	1,917
Netherlands, The	244.0	–	8	244
New Zealand	126.8	–	6	127
Nicaragua	233.6	1,217.7	63	1,451
Niger	–	1,200.7	55	1,201
Nigeria	6,248.2	2,136.2	114	8,384
Norway	145.0	–	6	145
Organization of Eastern Caribbean States' countries	10.4	7.1	2	18
Oman	157.1	–	11	157
Pakistan	6,664.2	7,670.9	210	14,335
Panama	1,273.2	–	45	1,273
Papua New Guinea	786.6	113.2	44	900
Paraguay	870.9	45.5	45	916
Peru	5,897.7	–	96	5,898
Philippines	11,419.2	294.2	169	11,713
Poland	5,710.8	–	39	5,711
Portugal	1,338.8	–	32	1,339
Romania	6,214.0	–	73	6,214
Russia	13,241.1	–	57	13,241
Rwanda	–	1,208.5	57	1,209

Annex 5

IBRD Loans and IDA Cumulative Lending by Country—As of June 30, 2004 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
Samoa	–	87.8	13	88
São Tomé and Principe	–	75.4	11	75
Senegal	164.9	2,253.9	102	2,419
Serbia and Montenegro	–	522.0	18	522
Seychelles	10.7	–	2	11
Sierra Leone	18.7	667.4	35	686
Singapore	181.3	–	14	181
Slovak Republic	416.6	–	7	417
Slovenia	177.7	–	5	178
Solomon Islands	–	49.9	8	50
Somalia	–	492.1	39	492
South Africa	302.8	–	13	303
Spain	478.7	–	12	479
Sri Lanka	210.7	2,837.1	97	3,048
Saint Kitts and Nevis	29.0	7.0	5	36
Saint Lucia	22.9	28.2	8	51
Saint Vincent and the Grenadines	8.5	14.7	5	23
Sudan	166.0	1,352.9	55	1,519
Swaziland	104.8	7.8	14	113
Syrian Arab Republic	613.2	47.3	20	661
Taiwan, Province of China	329.4	15.3	18	345
Tajikistan	–	332.9	19	333
Tanzania	318.9	4,612.0	128	4,931
Thailand	8,063.4	125.1	125	8,188
Timor-Leste	–	4.0	–	4
Togo	20.0	733.5	42	754
Tonga	–	21.8	4	22
Trinidad and Tobago	333.6	–	22	334
Tunisia	5,232.9	74.6	124	5,307
Turkey	22,003.7	178.5	151	22,182
Turkmenistan	89.5	–	3	90
Uganda	9.1	3,997.5	89	4,007
Ukraine	3,804.9	–	28	3,805
Uruguay	2,370.7	–	53	2,371
Uzbekistan	554.1	45.0	13	599
Vanuatu	–	18.9	5	19
Venezuela	3,328.4	–	40	3,328
Vietnam	–	4,861.1	43	4,861
Western Africa region	6.1	52.5	4	59
Yemen, Republic of	–	2,318.3	131	2,318
Yugoslavia, Federal Republic of	6,090.7	–	89	6,091
Zambia	679.1	2,691.8	82	3,371
Zimbabwe	983.2	662.0	36	1,645
Bank-wide total	**393,748.0**	**151,390.6**	**8,555**	**545,139**

Annex 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2004, by Country (July 1, 2003–June 30, 2004)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
Borrower or guarantor				
Afghanistan	–	293.0	5	293.0
Africa region	–	351.4	4	351.4
Albania	–	58.0	3	58.0
Angola	–	55.0	1	55.0
Argentina	1,585.8	–	4	1,585.8
Armenia	–	84.8	6	84.8
Azerbaijan	–	25.0	2	25.0
Bangladesh	–	526.5	6	526.5
Benin	–	20.0	1	20.0
Bhutan	–	36.8	2	36.8
Bolivia	15.0	54.0	3	69.0
Bosnia and Herzegovina	–	97.0	3	97.0
Brazil	1,267.3	–	5	1,267.3
Bulgaria	150.0	–	1	150.0
Burkina Faso	–	120.0	3	120.0
Burundi	–	110.4	3	110.4
Cambodia	–	60.0	2	60.0
Cameroon	–	20.0	1	20.0
Cape Verde	–	4.0	–	4.0
Caribbean region	–	9.0	1	9.0
Chad	–	20.0	1	20.0
Chile	210.7	–	2	210.7
China	1,218.3	–	9	1,218.3
Colombia	645.0	–	5	645.0
Comoros	–	13.3	1	13.3
Congo, Democratic Republic of	–	736.0	5	736.0
Congo, Republic of	–	19.0	1	19.0
Croatia	209.0	–	3	209.0
Dominica	–	3.0	1	3.0
Dominican Republic	119.8	–	3	119.8
Ecuador	54.0	–	2	54.0
Egypt, Arab Republic of	340.5	–	2	340.5
Ethiopia	–	320.0	3	320.0
Georgia	–	47.6	2	47.6
Ghana	–	160.5	3	160.5
Guinea-Bissau	–	7.0	1	7.0
Guyana	–	10.0	1	10.0
Honduras	–	154.9	6	154.9

Annex 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2004, by Country (July 1, 2003–June 30, 2004) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
India	389.5	1,033.0	7	1,422.5
Indonesia	266.0	55.8	3	321.8
Iran	359.0	–	2	359.0
Jordan	38.0	–	1	38.0
Kenya	–	264.7	4	264.7
Kosovo (Serbia and Montenegro)	–	4.0	1	4.0
Kyrgyzstan	–	31.0	3	31.0
Lao People's Democratic Republic	–	35.7	2	35.7
Lebanon	5.3	–	–	5.3
Lesotho	–	21.0	1	21.0
Macedonia (Former Yugoslav Republic of)	54.8		4	54.8
Madagascar	–	230.0	3	230.0
Mauritania	–	84.0	3	84.0
Malawi	–	116.0	4	116.0
Mali	–	127.4	4	127.4
Mexico	666.2	–	6	666.2
Moldova	–	63.0	3	63.0
Mongolia	–	18.0	1	18.0
Morocco	36.9	–	1	36.9
Mozambique	–	97.3	2	97.3
Nepal	–	185.8	4	185.8
Nicaragua	–	100.5	3	100.5
Niger	–	109.8	3	109.8
Nigeria	–	322.0	4	322.0
Pakistan	50.0	731.2	7	781.2
Paraguay	54.0	–	2	54.0
Peru	357.0	–	4	357.0
Philippines	96.9	–	4	96.9
Poland	326.0	–	2	326.0
Romania	230.0	–	2	230.0
Russian Federation	100.0	–	1	100.0
Rwanda	–	20.0	1	20.0
Samoa	–	17.3	2	17.3
Sao Tomé and Principe	–	6.5	1	6.5
Senegal	–	45.0	1	45.0
Serbia and Montenegro	–	125.0	6	125.0
Sierra Leone	–	25.1	1	25.1
Slovak Republic	75.3	–	2	75.3
Sri Lanka	–	175.7	3	175.7
Saint Lucia	3.7	3.8	1	7.5
Saint Vincent and the Grenadines	3.1	3.1	1	6.2

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2004, by Country (July 1, 2003–June 30, 2004) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Tajikistan	–	10.8	1	10.8
Tanzania	–	451.0	5	451.0
Thailand	84.3	–	1	84.3
Timor-Leste	–	4.0	1	4.0
Tonga	–	10.9	1	10.9
Tunisia	166.3	–	2	166.3
Turkey		1,585.7	5	1,585.7
Uganda	–	189.6	2	189.6
Ukraine	282.0	–	2	282.0
Vietnam	–	705.5	4	705.5
Yemen, Republic of	–	145.0	3	145.0
Zambia	–	50.0	1	50.0
Bank-wide total	**11,045.4**	**9,034.6**	**245**	**20,080.1**

ANNEX 7

2004 COMMUNIQUÉS OF THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE OF THE BOARD OF GOVERNORS OF THE IMF

Washington, D.C.
April 24, 2004

1. The International Monetary and Financial Committee held its ninth meeting in Washington, D.C. on April 24, 2004 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets—Sustaining the Recovery

2. The Committee welcomes the strengthening of the global economic recovery since its meeting last September. Industrial production and global trade have picked up sharply, and improved prospects in most regions point to stronger global growth going forward. However, a number of risks remain. These arise from large global imbalances, medium-term fiscal challenges in many countries, and the implications of the eventual transition to a higher interest rate environment. Continuing geopolitical uncertainties and developments in oil markets also remain important concerns.
3. The priority now is to implement the macroeconomic and structural policy measures that will help achieve a robust, balanced, and sustainable recovery. Structural reforms are essential to improve growth potential. Priority should be given to medium-term fiscal consolidation; reforms of pension and health care systems; better functioning labor and product markets; and reducing vulnerabilities in banking and corporate sectors. The Committee calls on all countries and regions to play their part and cooperate in addressing global imbalances.
4. The economy of the United States is expanding briskly, and Japan's economy continues to recover. The recovery in the euro area so far is more subdued. Monetary policy in advanced economies will need to remain consistent with price stability and support the recovery; in many countries where growth is strengthening, interest rates will over time need to rise to more neutral levels; and it will be important to communicate policy intentions clearly. The Committee encourages countries to take advantage of the current environment to strengthen the foundations for sustainable growth. Priorities for action include: medium-term fiscal consolidation in the United States; acceleration of structural reforms in the euro area; and continued banking and corporate reforms in Japan. Fiscal consolidation is also needed in the euro area and Japan.

5. The Committee is encouraged by the strong performance and recovery in many emerging market and developing countries, which has been aided by improved fundamentals and a rebound in private capital flows. Countries should continue to use the opportunity provided by the favorable financial market environment to strengthen growth prospects and reduce vulnerabilities. This will require steps to further strengthen fiscal positions and improve the structure and sustainability of debt, sustained and broad-ranging structural reforms, and, in some emerging market countries, a move toward more exchange rate flexibility as appropriate. The Committee welcomes the improvement in Argentina's macroeconomic performance, and calls on the government to continue to push ahead with full implementation of the policies and provisions of its economic recovery program aimed at strengthening growth, including negotiations aimed at reaching a sustainable debt restructuring through a collaborative agreement with creditors.
6. Economic performance in many low-income countries continues to improve. Nevertheless, the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration remain at risk, particularly in sub-Saharan Africa, and much remains to be done by all partners in the global effort to deliver them. The Committee underscores that stronger domestic institutions, sound economic policies, trade integration, and less burdensome regulation will be needed to underpin faster growth and poverty reduction. It welcomes the recent steps taken through the New Partnership for Africa's Development (NEPAD) and the African Union to improve governance and eradicate corruption. It calls on the international community to provide additional and coordinated assistance—including technical assistance, policy advice, increased and more effective aid including grants, debt relief, and greater access to industrial country markets.
7. The Committee received the report of Dr. Supachai Panitchpakdi, Director-General of the World Trade Organization. It reiterates the critical importance of open markets for supporting broad-based global economic growth and prosperity. The Committee calls for constructive and determined efforts by all countries to achieve early progress with the Doha Round, focusing on the issues of importance to all countries of open markets and fair access, and the reduction of trade-distorting subsidies in all areas, notably in agriculture. A successful completion of the round is a shared responsibility, important for all countries, particularly developing countries. The Committee supports the IMF's role in advocating trade liberalization and helping members to take all the necessary actions to gain full advantage of the opportunities provided by more open trade. It welcomes the IMF's decision to establish a Trade Integration Mechanism, designed as a temporary policy to address concerns associated with the current round of multilateral trade negotiations.

Crisis Prevention and IMF Surveillance Across the Membership: Priorities, Tools, and Modalities

8. Effective and evenhanded IMF surveillance remains an essential element of the international community's efforts to enhance crisis prevention, promote financial stability, and foster high and sustainable growth. The Committee especially welcomes the increased focus of surveillance on: financial sector and capital market issues—including the work from the Financial Sector Assessment Program, Reports on the Observance of Standards and Codes, and Offshore Financial Center assessments; economic developments and policies in countries of systemic or regional importance; early identification of potential vulnerabilities; and institutional foundations of growth. It also welcomes the work already underway and the proposed pilots on the treatment of public investment in IMF advice and arrangements with a view to protecting infrastructure investment, consistent with macroeconomic stability and debt sustainability.
9. The Committee welcomes efforts to bring a fresh perspective to the surveillance of program countries, and the decisions taken to increase the transparency of surveillance. It calls for a strengthening of efforts to ensure the objectivity of surveillance (including through debt sustainability analysis), and requests the IMF to explore ways to support countries' own economic efforts when the IMF is not providing financial assistance. The Committee looks forward to the forthcoming biennial review of surveillance, which should provide a thorough assessment and candid review of surveillance, and propose ways to enhance its focus, quality, persuasiveness, impact, and overall effectiveness.
10. The Committee welcomes the greater focus on vulnerabilities and key issues for surveillance identified at its meeting in Dubai: improving debt sustainability; reducing balance sheet vulnerabilities; and making progress on structural reform and sustainable medium-term fiscal frameworks. It agrees that further progress in these areas, as well as with policies to facilitate the adjustment of global imbalances, remain key priorities for surveillance in the coming year. Surveillance will also need to pay due attention to relevant political risks and to vulnerabilities to exchange rate and interest rate movements.
11. The Committee looks forward to further work on ways to reduce vulnerabilities and provide support for members with strong policies in dealing with external financial developments. It looks forward to the upcoming discussion of precautionary arrangements and their potential to assist members' own efforts to prevent balance of payments crises and as a possible exit strategy from IMF financial support.

12. The Committee welcomes the inclusion by an increasing number of countries of collective action clauses (CACs) in their international sovereign bonds and the convergence toward a market standard. It calls on the IMF to continue to promote progress in this area. The Committee also encourages sovereign debtors and private creditors to continue their work on a voluntary Code of Conduct, and looks forward to reviewing further work on issues of general relevance to the orderly resolution of financial crises. The Committee takes note of the Executive Board's ongoing review of the framework, and application of procedures, for exceptional access to IMF resources. It calls on the IMF to continue reviewing implementation of its lending into arrears policy.

Enhancing IMF Support to Low-Income Members: Instruments and Financing; IMF-World Bank Collaboration; and Promoting Debt Sustainability

13. The Committee reiterates that the IMF—in partnership with multilateral development banks and donors—has an important role to play in assisting its low-income members with effective policy advice, financing, and technical assistance to achieve high and sustained growth and poverty reduction. It welcomes the progress on better tailoring the IMF's assistance to the differing financing and policy needs of low-income countries. The Committee looks forward to further work on a strengthened process of surveillance for those countries where the IMF is not providing financing, with a view toward enhancing the signaling role of surveillance and promoting country ownership. It underscores the importance of improving the macroeconomic design of PRGF-supported programs, including the social impact. The Committee underscores the importance of maintaining an adequate PRGF financing capacity. In order to meet future needs, it calls for further discussions on the financing of a self-sustained PRGF. The Committee welcomes that some countries have indicated a willingness to provide additional resources.
14. The Committee reiterates that the Monterrey Consensus and Poverty Reduction Strategy Paper (PRSP) approach provide the appropriate framework for the IMF's engagement with low-income countries and its participation in global efforts toward achieving the MDGs. It encourages a further sharpening of the focus of PRSPs and PRGF-supported programs to enhance their linkage to the MDGs and their operational usefulness for policy choices and donor coordination. The first Global Monitoring Report on meeting the MDGs highlights the significant remaining challenges. The Committee expresses concern that on current trends, most MDGs will not be met without an increase in the level and effectiveness of financial resources in support of strong policies. It looks forward to reviewing at its next meeting the ongoing joint work with the World Bank on aid effectiveness, absorptive capacity, results-based measurement mechanisms, and various policy options and financing mechanisms, such

as an international financing facility and other options. In this regard, it welcomes the consultation with emerging markets and developing countries. The Committee welcomes the recent review of IMF-World Bank collaboration, and supports the plans for improved coordination.

15. The Committee welcomes the progress in providing debt relief under the enhanced HIPC Initiative, with a further five countries reaching their completion point since the Annual Meetings. It looks forward to continued further progress toward full implementation of the Initiative, and takes note of the work being undertaken on options for addressing the sunset clause. The Committee urges all creditors that have not yet done so to deliver debt relief in full. It welcomes the development by the IMF and the World Bank of a debt sustainability framework for low-income countries, and looks forward to further work to make it operational.

Other Issues

16. The Committee underscores the importance of IMF technical assistance in supporting members' efforts to build institutional capacities and implement sound economic policies and financial systems, which will lay the foundations for sustained growth and poverty reduction.

17. The Committee underscores the importance of further determined action by the international community to combat money laundering and the financing of terrorism. It welcomes the significant progress that has been made under the 12-month IMF/World Bank pilot program of AML/CFT assessments. The Committee endorses the recent decision by the Executive Board to make the scope of the IMF's involvement in AML/CFT assessments comprehensive and a regular part of the IMF's work. It encourages all international organizations and bodies to work together closely in conducting assessments and delivering critically needed technical assistance. The Committee urges all members to adopt and implement the revised FATF 40 + 8 Recommendations as the accepted international standard.

18. The IMF's effectiveness and enhanced credibility as a cooperative institution also depends on all members having appropriate voice and representation. Efforts should continue to be made to enhance the capacity of developing and transition countries to participate more effectively in IMF decision-making. The Committee calls on the Executive Board to continue its work on IMF quotas, voice and representation, and looks forward to a report on progress at its next meeting. The Committee recommends completion of the ratification of the Fourth Amendment.

19. The IMF's liquidity is adequate to meet the near-term projected needs of its members although continued monitoring will be important.

20. The Committee welcomes the high-quality work of the Independent Evaluation Office, and looks forward to its reports on PRSP/PRGFs, technical assistance, and the role of the IMF in Argentina from 1991 to 2002.
21. The Committee pays tribute to Mr. Horst Köhler for his leadership of the International Monetary Fund as Managing Director during the past four years. In the face of a difficult world economic situation and unprecedented challenges for the international community, Mr. Köhler has worked tirelessly to promote close international cooperation so that all can share in the benefits of globalization. He has strengthened the IMF's role in working for the stability of the international financial system, has helped the IMF lead the international effort to assist low-income countries, and has instilled a listening and learning culture in the IMF that will change the way in which the IMF interacts with members and civil society.
22. The Committee also acknowledges the contribution of Mr. Jacques J. Polak through 57 years of service to the IMF.
23. The next meeting of the IMFC will be held in Washington, D.C. on October 2, 2004.

Washington, D.C.
October 2, 2004

1. The International Monetary and Financial Committee held its tenth meeting in Washington, D.C. on October 2, 2004, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee welcomes Mr. Rodrigo de Rato as the new Managing Director, and looks forward to working closely with him on furthering the goals of global stability and prosperity.

The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

2. The Committee welcomes the strengthening and broadening of global economic growth in 2004, supported by a strong upturn in global trade, supportive policies, and favorable financial market conditions. The global expansion is expected to continue at a solid pace provided all countries implement policies and reforms that will promote robust, balanced, and sustainable growth. The Committee notes that downside risks to the recovery have recently increased, stemming in part from the increase and volatility in oil prices. These reflect geopolitical tensions, strong global demand, and market dynamics. The IMF stands ready to assist members that may be adversely affected.
3. The Committee reiterates the desirability of stability in oil markets and prices which are consistent with lasting global prosperity. To this end, it welcomes the decisions by oil-producing countries to continue to expand production and urges further measures to increase capacity, and calls on oil-consuming countries to take measures to promote energy sustainability

and efficiency. The Committee also stresses the importance of dialogue between consumers and producers, and of further progress to improve oil market information and transparency.

4. The strength of the global recovery has set the stage for a gradual return to more neutral monetary policies, with the desirable pace and timing of tightening varying across countries, depending on cyclical positions. Continued good communication of policy intentions will be essential to facilitate orderly adjustment in financial markets to higher interest rates, where needed. Inflation remains low and risks to price stability remain moderate. However, policymakers should be ready to contain any inflationary pressures, including from higher commodity prices, thereby ensuring noninflationary growth.
5. All countries should take advantage of the recovery to address medium-term vulnerabilities and challenges with renewed commitment. The Committee considers that bold reforms on a wide front are needed to strengthen fiscal positions, remove structural impediments to growth, support the correction of global imbalances, reduce financial and corporate vulnerabilities, and accelerate poverty reduction.
6. Fiscal consolidation remains a key priority in many countries. In the advanced economies, credible medium-term fiscal frameworks should be based on well-defined policies, and ensure progress on consolidation particularly in good times. Reforms of pension and health care systems will also be critical to address the fiscal pressures from population aging. Although many emerging market countries are making good progress in improving the structure of public debt and strengthening fiscal positions, further efforts are needed to bring public debt down to levels that will build adequate resilience to shocks. Broad tax bases, effective and transparent public expenditure management, and structural measures to boost growth will be important to improve debt sustainability and meet social and infrastructure spending priorities.
7. Structural reforms remain crucial to strengthen the foundations for sustained growth. Most advanced economies should step up their efforts to increase economic efficiency and flexibility to take full advantage of the opportunities from rapid technological change and global integration. Boosting sustainable growth and increasing economic resilience across emerging market countries, depending on country circumstances, will involve: completing financial and corporate sector reforms; strengthening banking supervision and developing domestic capital markets; improving the investment climate; and promoting economic diversification. The Committee notes the importance of addressing the economic implications of demographic changes. Depending on country circumstances, policies will need to focus on boosting labor supply, increasing public and private savings, and lifting productivity.

8. Policies to support an orderly resolution of global imbalances are a shared responsibility, and key to reinforcing the basis for more balanced and sustainable growth. The Committee underscores the importance of progress on medium-term fiscal consolidation in the United States, continued structural reforms to boost growth in Europe and Japan, and, in emerging Asia, steps toward greater exchange rate flexibility, supported by continued financial sector reform, as appropriate. Also, improving information and transparency in markets, including the role of hedge funds, would help strengthen market surveillance. The Committee welcomes the recent improvement in Argentina's fiscal position since 2002. The Committee supports that Argentina decisively addresses all the outstanding structural issues in their program, completes a comprehensive and sustainable debt restructuring, and ensures a sustainable medium-term fiscal framework. We welcome the efforts by Argentina toward completing a comprehensive and sustainable debt restructuring and hope for an expeditious conclusion to the process.
9. The Committee emphasizes that in the coming months IMF surveillance should focus on a number of key issues, including: the impact of higher oil prices, especially on the most vulnerable; the sustainability of medium-term fiscal positions and debt in many members; and managing the policy response to potential inflationary pressures.
10. The Committee calls on all partners to strengthen their commitment to the global effort to reduce poverty. The recent strong growth in most low-income countries is welcome, but the Committee is concerned that in many cases, particularly in sub-Saharan Africa, growth remains inadequate for achieving the Millennium Development Goals (MDGs).[1] The key challenge for these countries—as recognized in the New Partnership for Africa's Development—is to press ahead with efforts to further strengthen institutions and governance, to build on the macroeconomic stabilization that has been achieved. The international community needs to support these efforts with more open markets for these countries' exports, increased and better-coordinated aid and technical assistance, further debt relief, and sound policy advice.
11. An open and inclusive multilateral trading system is central to global growth and economic development, especially for developing countries. The Doha Round offers a unique opportunity for substantial progress toward this objective, and the Committee is encouraged by the recent decisions on negotiating frameworks. We endorse the "July Package" and urge all parties to work toward concrete advances in liberalizing trade, strengthening multilateral trade rules, and reducing trade-distorting subsidies, notably in agriculture. To achieve ambitious trade liberalization will require the full commitment of all parties, in particular strong leadership

[1] As endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000.

from the major trading nations and readiness of all countries to embrace the opportunities provided by more open trade. The Committee supports the IMF's continued role in advocating trade liberalization and assisting members, including through the Trade Integration Mechanism.

Making Surveillance More Effective and Strengthening Crisis Prevention

12. Effective and evenhanded IMF surveillance across the whole membership is central to promoting high and sustainable growth in member countries and to crisis prevention. The increasing interdependence of the membership reinforces the importance of effective surveillance of systemically-important countries and capital markets. The Committee welcomes the progress made in strengthening surveillance, and the steps identified during the recent biennial surveillance review to enhance its overall effectiveness. A focus on implementation is now needed. The Committee calls upon the IMF to continue its efforts to strengthen its economic analysis and policy advice; systematically evaluate the appropriateness of that advice; complement multilateral and bilateral surveillance with a focus on regional issues; improve the quality of the policy dialogue with members (including through increased cross-country analysis where relevant); strengthen communications to markets and the public of the IMF's policy messages while preserving its role as a candid and confidential advisor; and develop a methodology for better assessing the effectiveness of surveillance.
13. Toward meeting these objectives, the achievement of which should be assessed in the next surveillance review, the Committee agrees that priority should be given to sharpening the focus of Article IV consultations, including a deepening of the discussion of exchange rate issues; enhancing financial sector surveillance; and better integrating debt sustainability analysis and regional and global spillovers into country surveillance. Further progress in reducing balance sheet vulnerabilities, and further work on surveillance in low-income countries will also be monitored in the next review of surveillance.
14. Progress in bringing a fresh perspective to the surveillance of program countries should be kept under review, and lessons learned from ex-post assessments of program performance should be carefully implemented. It is important to assess the extent to which earlier IMF advice was acted on by countries, taking account of the countries' views. The Committee looks forward to the forthcoming reviews of the standards and codes initiative and the Financial Sector Assessment Program, reflecting the increasing importance of financial system stability. The Committee calls for a strengthening of efforts to ensure the objectivity of surveillance, including through enhanced debt sustainability analysis covering all member countries.

15. The Committee welcomes consideration of whether there are gaps in the IMF's range of instruments and policies. It notes the preliminary discussions of possible new modalities for high-frequency policy monitoring and delivering signals on the strength of a member's economic policies outside the context of an IMF financial arrangement. The Committee notes the role that existing precautionary IMF instruments are playing in signaling the strength of members' policies; and the possible role for a precautionary PRGF, and precautionary and other financing instruments designed to prevent the emergence or spread of capital account crises. It calls for further work on these proposals, including the usefulness and potential demand, in close consultation with potential users, donors, and creditors, and calls for a report at its next meeting.
16. The Committee welcomes the increased adoption of collective action clauses (CACs) in international sovereign bonds, and calls on the IMF to continue to promote progress in this area. It notes recent initiatives aimed at achieving a broad consensus between sovereign issuers and their creditors on voluntary principles for emerging markets' crisis management and debt restructuring. The Committee looks forward to reviewing further work on general issues of relevance to the orderly resolution of financial crises, including implementation of the IMF's lending into arrears policy.

Enhancing International Support for Low-Income Members

17. The Committee supports the ongoing work to clarify and strengthen the IMF's role in low-income countries, which should be based on country ownership and close cooperation with other multilateral institutions and bilateral donors. The IMF has an important role in supporting—through policy advice, capacity building, and financial assistance, including debt relief—low-income countries' efforts to achieve the macroeconomic stability and high growth needed to make progress toward the MDGs. The Committee looks forward to further work on the financing and modalities of the IMF's engagement with low-income members, including the financing of the PRGF after 2006 to maintain adequate capacity to meet future needs, instruments to help members face shocks, and ways to improve monitoring and signaling. The Committee notes the joint report of the IMF and the World Bank on aid effectiveness and financing modalities. It encourages further analysis by the World Bank and IMF of aid effectiveness, absorptive capacity, results-based measurement mechanisms, and financing modalities and mechanisms to augment aid flows, such as the International Finance Facility, global taxes, and other innovative mechanisms, and looks forward to a further report.
18. The Committee supports continued efforts to strengthen the Poverty Reduction Strategy Papers (PRSP) approach and IMF support to low-income countries under the PRGF. It welcomes the report of the Independent Evaluation Office on the PRSP/PRGF, and the work underway to follow up on its recommendations. To support implementation of the Monterrey Consensus, the Poverty Reduction

Strategy (PRS) process should be improved and become better integrated into each country's domestic policy-making processes, and international assistance, including from the IMF, should become more fully coordinated with domestic economic priorities. The Committee looks forward to the work on improving the role of the IMF in the PRS process, and on the design of policy programs supported by the PRGF. It calls for increased incorporation of poverty and social impact analysis into PRGF-supported programs, and for more extensive analyses of the sources of and obstacles to growth, and the linkages between poverty reduction and economic growth.

19. The Committee welcomes the progress in providing debt relief under the HIPC Initiative, which has been extended for two more years, encourages eligible countries to take the necessary actions to benefit from the Initiative, and urges full creditor participation. The Committee supports the IMF's and the World Bank's work on a single framework to assist low-income countries' efforts to achieve and maintain robust debt sustainability while pursuing their development objectives. It looks forward to further consideration of outstanding issues in the proposed framework for debt sustainability, before it is made fully operational, and of further debt relief, including its financing.

Other issues

20. The IMF's effectiveness and credibility as a cooperative institution depend on all members having appropriate voice and full participation in its processes. The Committee takes note of the IMF Executive Board's status report regarding work on quotas, voice, and representation. It encourages the Board to consider further issues of voice, quotas, and participation, noting as the Board agreed, that progress will require broad consensus among the shareholders. The Committee recommends completion of the ratification of the Fourth Amendment.
21. The IMF's liquidity is adequate to meet the near-term projected needs of its members, although continued monitoring will be important.
22. The Committee expresses its appreciation of the work of Mr. Montek Singh Ahluwalia as first Director of the Independent Evaluation Office (IEO). It looks forward to continued high-quality reports by the IEO.
23. The 60th anniversary of the IMF is a timely opportunity to reflect on the forces that will help shape the institution's priorities going forward. The Committee welcomes the preliminary consideration by the Executive Board of the work on the IMF's strategic direction initiated by the Managing Director, and looks forward to a discussion at its next meeting. It also welcomes the continuing progress in reforming the IMF's budgetary framework.
24. The next meeting of the IMFC will be held in Washington, D.C. on April 16, 2005.

Annex 8

2004 Communiqués of the Development Committee of the Boards of Governors of the World Bank and IMF

Washington, D.C.
April 25, 2004

1. The strategies and decisions agreed in Doha, Monterrey and Johannesburg set out a framework for fighting poverty and achieving the internationally agreed goals of the Millennium Declaration, based on countries pursuing sound policies and good governance, combined with stronger international cooperation and support. We met today to assess progress based on the first *Global Monitoring Report*. We welcomed the report which provides a good basis for our yearly review. Building on this work, future reports should focus on the agenda of monitorable actions in the identified priority areas in order to reinforce accountabilities and enhance cooperation amongst all development partners.
2. We recognize that there has been progress on many fronts, including significant reforms undertaken by developing countries and important gains in reducing income poverty. However, we are very concerned that, based on current trends, most Millennium Development Goals (MDGs) will not be met by most developing countries, particularly in sub-Saharan Africa. All parties, developing and developed countries and the international institutions, must urgently enhance concerted action to accelerate progress towards these goals.
3. Sustainable and inclusive growth needs to be accelerated in many developing countries, in particular through: improving the enabling climate for private sector activity; strengthening reforms, capacity and results focus in public institutions and improving the quality of governance; scaling up effective investment in infrastructure; and ensuring access to healthcare, education and other basic social services and fighting the HIV/AIDS epidemic.
4. Specific priorities must be determined at the country level in the context of country-owned and monitored development strategies, as reflected in the Poverty Reduction Strategy Papers (PRSPs) in the case of low-income countries and respective national strategy frameworks in middle-income countries (MICs). We look forward to reviewing progress on the Bank's efforts to enhance its support for development in MICs at a future meeting. Given the centrality of faster and more equitable economic growth for making greater progress on the MDGs, we welcomed the efforts of the Bank to support stronger investment climates in developing countries and we intend to discuss improving the climate for private sector activity at our next meeting. As we have noted previously, infrastructure investment within the right policy environment makes a fundamental contribution to economic growth and achievement of the MDGs. The implementation of the infrastructure action plan of the Bank has been reviewed by the Board of Directors and we look forward to a discussion on progress at our next meeting.

5. Developed countries must meet their commitments to help accelerate progress. Sustaining stable, balanced and strong growth in the global economy is a prerequisite. Ensuring a successful, pro-development, and timely outcome to the Doha Development Agenda is critical to global growth and the economic prospects of developing countries. We stressed our commitment to a constructive and determined effort to move the multilateral trade agenda forward. We again stressed that it is essential for developed countries to do more to liberalize their markets and eliminate trade distorting subsidies, including in the areas of agriculture, textiles and clothing, which are of particular importance for developing countries. At the same time, we emphasized the importance of trade facilitation and liberalization efforts in developing countries. We welcomed the Bank's continuing efforts to promote trade facilitation and the Integrated Framework, as well as the IMF's recently adopted Trade Integration Mechanism, which will provide additional support and assurances to developing countries as they integrate further into the global trading system. We also urged continued efforts to tailor Bank lending activities to support capacity building and country-owned trade initiatives. We noted the growing importance of migration, and with it, workers' remittances and called for further work to improve understanding of their determinants and to create a supportive environment to enhance their development impact.
6. More aid is also required. It should be predictable, timely, long-term and more effective. We urged developed countries that have not done so to make concrete efforts towards the target of 0.7 percent of GNP as ODA. A substantial and timely agreement on the funding of IDA 14 will be a critical affirmation of our commitment to mobilize the resources for our support for strong, results-oriented action by partners in the poorest countries.
7. We noted a progress report on financing modalities and we look forward to a report at our next meeting on aid effectiveness, absorptive capacity, results-based measurement mechanisms and elaboration of policy options and financing mechanisms for mobilizing additional resources (including examining an international finance facility, global taxation and other proposals). More aid can only be sustained by showing positive results. This requires a strengthened effort to implement the Declaration of the Rome High Level Forum on Harmonization and the Core Principles of Marrakech including strengthening country capacity to manage for results. We support the work by the OECD/DAC, jointly with development partners, to address the continuing divide between agreed global policies and detailed operational procedures and country-level practices.
8. We also recalled that the IFIs are accountable for their contribution to implementing the Monterrey consensus. Key areas for action include harmonization, managing for results, and responsiveness to clients. We urged them to increase their efforts to identify and meet needs of client countries. Taking into account fiscal constraints facing clients, we encouraged the Bank to consider new innovative products, improve

internal efficiencies and simplify the application of lending policies in order to reduce the costs of doing business while respecting fiduciary and safeguard standards.

9. In April 2002, we endorsed the plan to help make primary education a reality for all children by 2015 and achieve gender equality in primary and secondary education by 2005. The Fast Track Initiative (FTI) was designed to address the data, policy, capacity and resource gaps that constrain progress in achieving Education For All. Its implementation has highlighted the potential as well as the challenges associated with scaling up the MDG agenda more generally and in particular, the need for credible, effective and predictable financing in support of adequate policies and programs. The experience of FTI so far has demonstrated that it should be anchored in countries' Poverty Reduction Strategies if it is to be effective. We urged all countries, developed and developing, to take the additional steps required to make this initiative succeed and requested the Bank Board to continue to monitor progress.

10. We also reviewed implementation of the HIPC Initiative and recalled the importance of full creditor participation for its success. Thirteen countries have reached the completion point and another 14 are between decision and completion point. However, 11 countries, several of which are affected by conflict and some with protracted arrears, are either yet to reach the decision point or to begin establishing a track record under a Fund-supported program. We urged the Bank and the Fund to help facilitate these countries' rapid access to HIPC debt relief when their outstanding issues are addressed. We also urged that careful consideration be given to options to deal with the HIPC sunset clause which is scheduled to take effect end-2004.

11. We broadly supported the principles underlying the proposed framework for debt sustainability in low-income countries while acknowledging that the modalities and operational implications remained to be clarified. We stressed the need for a consistent and coordinated approach among borrowers, creditors and donors, to ensure that resources to low-income countries are provided on appropriate terms, including the degree of concessionality and level of grant financing. This must build on full implementation of the HIPC initiative. We also welcomed work by the Fund and the Bank on measures and instruments to assist low-income countries deal with exogenous shocks and urged them to accelerate their work, in close collaboration, for early consideration by the Boards.

12. Strengthening the voice and participation of developing and transition countries in the work and decision making of the Bretton Woods institutions remains a major challenge. We welcomed the further progress, particularly on capacity building, made since our last meeting, including the establishment of an Analytical Trust Fund to support the African Chairs and a secondment program at the Bank. We look forward to receiving reports from our Boards on all aspects of this issue and to further discussion at the 2004 Annual Meeting.

13. The next meeting of the Committee will be held in Washington, D.C. on October 3, 2004.

Washington, D.C.
October 2, 2004

1. As we celebrate the 60th anniversary of the Bretton Woods Institutions and approach the fifth anniversary of the U.N. Millennium Declaration, we recommit ourselves to supporting efforts by developing countries to pursue sustainable growth, sound macroeconomic policies, debt sustainability, open trade, job creation, poverty reduction and good governance. These actions need to be reinforced by stronger international action and partnerships, including reforming trade, more and more effective aid and stronger private flows in order to make progress on the Millennium Development Goals[1]. We remain concerned that most MDGs will not be met by most developing countries.
2. Global economic growth is strong, supported by exceptionally robust growth in developing countries, as the world benefits from the significant reforms undertaken by many countries over recent years. Private sector driven growth resulting in new jobs and higher tax revenues, which can be used to finance poverty-reducing public expenditures, is critical to the success of country-led efforts to reduce global poverty. Success in the Doha Development Agenda can only complement these developments and we stress the importance of translating the recently agreed WTO frameworks into tangible results. We urge all countries, developing and developed, to participate fully in the negotiations and urge the IMF and World Bank to continue to support work to this end, and to help developing countries assess the impact and to provide additional support to address potential adjustment costs.
3. To help developing countries take advantage of the new opportunities that can arise from a better economic setting and to strengthen the foundations for economic growth, we welcome the renewed focus being given by the World Bank Group to private sector development, improving the investment climate and strengthening financial sectors, and urge the Bank to continue to translate this into country operations. Complementing macroeconomic stability, capacity building and a greater results focus in public services and institutions and improving the quality of governance, successful private sector investment, social development as well as gender equality are key to accelerating pro-poor growth. We note the important role played by remittances in this context. We urge the Bank to intensify its analytical work on the potential sources of growth and ways to mobilize them and to help countries build the relevant analytical capacity.
4. Strengthening the foundations for growth will also critically depend on addressing large infrastructure needs in many countries. We welcome the Bank Group's plans to scale-up activities in implementing the

[1] As endorsed by Heads of State and Government in the U.N. General Assembly on September 8, 2000.

Infrastructure Action Plan and urge accelerated support of country efforts in accordance with the Bank's safeguards. We emphasized the importance of addressing maintenance and other costs to ensure the sustainability of infrastructure investments. We also stressed the need to pursue—together with the IMF—efforts to increase fiscal space for public infrastructure investments within limits of fiscal prudence and debt sustainability. We also endorse further Bank engagement to meet infrastructure needs at the regional and sub-sovereign levels, enhancing application of risk mitigation instruments, and continuing efforts to offer a more complete and seamless client product line across the World Bank Group; accordingly, we urge the Bank to present options to its Board to move this agenda forward concretely. These actions will be particularly important in enhancing the Bank's support for development in middle-income countries, as well as in low-income countries.

5. These and other actions required to lay the basis for sustained stronger growth are critical to our ability to achieve the MDGs, as is progress in providing effective health systems (in particular tackling HIV/AIDS, malaria and other communicable diseases), education for all and other basic social services. We noted the special needs of low-income countries under stress (LICUS), where technical assistance is especially necessary to strengthen weak policies and institutions. We look forward to reviewing progress in all these areas in the second Global Monitoring Report at our next meeting.
6. We agree that reform efforts in developing countries must be supported by improved aid effectiveness, increased aid and other financial flows, and coherent policies to achieve development results. The international community has agreed to harmonize and align their support behind country-owned development strategies, streamline the use of conditionality, increase the focus on results, and use country systems where appropriate. We are committed to using the Second High-Level Forum on Harmonization in Paris next spring to translate these agreements into clear and specific commitments and timetables and call for the development of indicators and benchmarks to monitor the participation of all partners in this effort at the country level.
7. We must also enhance our efforts to help developing countries build capacity and address absorptive capacity constraints. We welcome the progress achieved to date in implementing the Poverty Reduction Strategy (PRS) process as indicated in recent independent evaluations. We note the important challenges that remain in implementing the approach fully and effectively both at the country level and in the Bank and Fund and among other development partners, and welcome the revisions to the PRS architecture to help achieve this. One area which deserves closer attention in next year's PRS report is the continued efforts by the Bank and Fund to streamline their aggregate conditionality. We also call on the Bank to review its own policy and practice on conditionality and report at our meeting in Fall 2005.

8. The provision of additional, predictable and timely financial assistance to countries committed to sound policies, remains a critical issue, particularly for sub-Saharan Africa. We urge those donors, who have not yet done so, to make concrete efforts towards the target of 0.7 percent of GNP as ODA. We welcome the progress announced by some countries, including, in some cases, the setting of clear timetables to achieve this objective. We also reaffirm our commitment to a substantial and timely replenishment of IDA, recognizing the critical timetable to reach the MDGs.
9. To address the needs for additional stable and predictable financing to help developing countries undertake ambitious investment plans to meet the MDGs and to finance associated recurrent costs where appropriate, we reviewed proposals to complement increased aid flows and commitments with innovative mechanisms. We welcomed the World Bank and IMF analysis of these options, notably the International Finance Facility, global taxes and voluntary contributions, including the analysis of their technical feasibility. We also took note of the international meeting on Action Against Hunger and Poverty convened by President Lula on September 20th 2004 in New York. We ask the Bank and the Fund to continue their work and report at the next meeting on how to take such options forward. We also encourage the Bank to explore the potential for increasing leverage through blending aid with other flows, including MDB lending.
10. Debt sustainability is an essential underpinning for growth. We reviewed progress under the enhanced HIPC Initiative, welcomed the recent decision to extend the sunset clause and urged full creditor participation. We welcome the development of a forward-looking debt sustainability framework that aims to help low-income countries manage their borrowings and avoid a buildup of unsustainable debt, while pursuing the MDGs. We stressed the need to provide resources to low-income countries on appropriate terms, including the degree of concessionality and level of grant financing. We look forward to further work on the remaining issues by the Bank and the Fund to make the framework operational as soon as possible. We underscore the need for joint Bank/Fund Debt Sustainability Analyses (DSAs) (based on a clear division of labor) to provide countries, and their development partners, with clear and coherent analysis and guidance. We also urge the Bank and the Fund to accelerate their work on means to help mitigate the impact of exogenous shocks on low-income countries and to report to their Boards at an early date.

11. We also reviewed reports from our Boards with respect to their work on enhancing the voice and participation of developing and transition countries in our institutions. This work takes place within a broader context of reflections on how best to address governance issues within the international community. We welcomed the progress to date in making Bank and Fund operations more responsive to borrowers' needs. We urge the Boards to cooperate closely together in exploring all relevant options and to strive to achieve consensus amongst all members. We look forward to receiving a report regarding the feasibility of these options, to allow us to address the necessary political decisions at our next meeting.
12. The next meeting of the Committee will be held in Washington, D.C., on April 17, 2005.

Report on Operations Under the Bretton Woods and Related Agreements Act

2005

Canada

Report on Operations Under the Bretton Woods and Related Agreements Act 2005

Prepared by:
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Introduction

The Bretton Woods institutions—the International Monetary Fund (the IMF or the Fund) and the World Bank (the Bank)[1]—were founded at a conference held at Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and support high rates of sustainable economic growth. To achieve these goals, it exercises a surveillance function by monitoring members' economic policies, provides policy advice and technical assistance, and extends short- and medium-term financial assistance to countries faced with balance of payments difficulties.

The World Bank's goal is to reduce poverty by raising living standards and promoting sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including economic policy advice and lending and technical assistance for projects that promote sustainable growth and an improved quality of life.

Canada is the eighth largest member of the IMF (as measured by quotas), tied with China, after the six other Group of Seven countries and Saudi Arabia. Along with China, India, Italy, Russia and Saudi Arabia, Canada is the sixth largest shareholder of the World Bank. On the Executive Boards of the two institutions, Canada represents Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. On the Bank's Executive Board, Canada also represents Guyana. Canada's formal participation in the two institutions is authorized under the Bretton Woods and Related Agreements Act. Section 13 of the Act states:

> The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each calendar year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.

This report has been prepared in accordance with this provision. The sections that follow review the activities and operations of first the IMF and then the World Bank for the year 2005. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of the year's activities. The 2005 spring and fall communiqués of the International

[1] In this document "World Bank" and "Bank" refer to the International Bank for Reconstruction and Development and the International Development Association. "World Bank Group" and "Bank Group" refer to the broader group of World Bank institutions that includes the International Finance Corporation, the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes.

Monetary and Financial Committee (IMFC) of the Board of Governors of the IMF and the Development Committee (DC) of the Boards of Governors of the World Bank and the IMF are also appended for information. The IMFC and DC are the key policy committees of the IMF and World Bank Boards of Governors, and their communiqués steer the policy direction of the two institutions.

Roles of the International Monetary Fund and World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary cooperation.
- Identifies financial vulnerabilities and promotes remedies to prevent financial crises.
- Promotes orderly exchange rate relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Provides support for poverty reduction through promotion of economic stability.

World Bank

- Provides support for poverty reduction in developing countries through investments in areas such as health and education.
- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprise development and private investment in developing countries primarily through its affiliates, the International Finance Corporation and the Multilateral Investment Guarantee Agency.
- Enhances the flow of capital and technology for productive purposes to developing countries by providing investment insurance against non-commercial risks for investments in developing countries.

International Monetary Fund

Benefits of Membership

As a major trading nation, Canada benefits from a strong international monetary system that facilitates the free movement of goods, services and capital. The IMF promotes international financial stability and economic growth through the provision of policy advice and financial and technical assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy issues affecting the world monetary and financial system.
- The IMF, through its regular surveillance of the Canadian economy, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance Canada, other government agencies and the Bank of Canada.
- The efforts of the IMF to make sure that countries abide by their obligations, including those under Fund-supported programs, help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of return on its financial position in the IMF.
- Were Canada to experience severe balance of payments difficulties, it would have the right to draw on IMF financial assistance.

Membership allows Canada, in cooperation with its international partners, to play an active role in identifying areas where reforms to the Fund are required and taking steps to implement those reforms. To enhance the Fund's effectiveness, reforms have focused on six main areas:

- Improving transparency, accountability and openness.
- Strengthening surveillance.
- Enhancing crisis resolution.
- Improving the effectiveness of IMF lending.
- Safeguarding the IMF's cooperative nature.
- Strengthening support for low-income countries.

Looking forward, a key objective for Canada is to ensure that the Fund has the tools to promote international financial stability. To meet this objective, Canada supports:

- Strengthening surveillance to prevent crises through greater attention to financial vulnerabilities and increased transparency of information.
- Improving the institutional capacity of countries to support strong macroeconomic frameworks and more resilient financial systems.
- Enhancing the capacity of the Fund to manage and resolve financial crises.
- Improving IMF lending to promote economic reform.
- Strengthening governance and accountability of the IMF and its members.

Canada continues to place a high priority on strengthening support for low-income countries. The IMF plays a crucial role in supporting macroeconomic stability as a key tool for poverty reduction in the poorest countries and is integrating its efforts with those of the World Bank.

The Fund's involvement in these key areas, and Canada's priorities related to these efforts, are described in more detail in the sections that follow.

How the IMF Works

The IMF works like a credit union. It has a large pool of liquid assets, or resources, comprising convertible national currencies, special drawing rights,[2] and other widely used international currencies provided by its members, which it makes available to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by "quotas" reflecting each country's relative importance in the world economy. A country's quota in turn helps determine the amount of Fund resources that it may use should it experience economic difficulties. At the end of 2005 the total quota for the Fund's 184 members was SDR 213.5 billion.

A member country uses the general resources of the IMF by purchasing (drawing) other members' currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members' currencies over a specified period of time, with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on four "credit tranches," each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach an agreement on a set of economic measures and reforms aimed at removing the source of the country's balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts one to two years, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility, created in December 1997.

Members can also use financial facilities created for specific purposes, including emergency assistance for member countries afflicted by natural disasters or recovering from conflict situations.

Concessional financing to low-income developing countries under the Poverty Reduction and Growth Facility (formerly the Enhanced Structural Adjustment Facility) is made available in the form of low-interest loans with extended maturity periods.

[2] The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves. The SDR is also the standard unit of account for the IMF's operations. It represents a weighted basket of four major currencies: the US dollar, the Japanese yen, the pound sterling and the euro. At the end of 2005 the exchange rate was SDR 1 = C$1.66.

Developments in Emerging Markets

Late in 2005, Brazil and Argentina, two of the IMF's top three debtors (owing US$15.46 billion and US$9.57 billion, respectively, and representing 39 per cent of outstanding credit) announced their intention to fully repay their IMF debt in advance. These repayments were completed as of January 3, 2006.

Brazil's early repayment came in the context of the growing strength of the country's external position, particularly its substantial trade and current account surpluses and strong capital inflows that have greatly boosted reserves and reduced external debt. IMF Managing Director Rodrigo de Rato welcomed the decision, and in a visit to Brazil, he highlighted the close relations between Brazil and the Fund, stating, "Although Brazil is no longer a borrower from the IMF, the Fund will continue to play an important role as adviser, and exchange views with Brazil on global economic issues, where Brazil plays an important role."

The decision made by **Argentina's** authorities reflects their confidence that their external position is sufficiently strong to warrant early repayment. Important challenges and opportunities lie ahead for Argentina, and the Fund intends to maintain a productive relationship with the Government to help Argentina address these challenges.

In May 2005, the IMF signed a three-year, US$10-billion Stand-By Arrangement with **Turkey**, the Fund's largest borrower with 25 per cent of total credit outstanding. The program is designed to help Turkey extend its recent solid economic performance and reduce its vulnerabilities. Although the program went off track early, it is now back on track and Turkish macroeconomic performance in 2005 remained strong. Real gross domestic product (GDP) grew by an estimated 5.0 per cent in 2005, moderating to a more sustainable rate after rapid growth of 8.9 per cent in 2004. The disinflation program has continued to be successful; 2005 year-end inflation declined to 7.7 per cent, beating the IMF-backed 8-per-cent target. For 2006, the central bank has formally adopted inflation targeting; it will aim for 5-per-cent inflation with a plus/minus 2-per-cent band. The current account deficit, however, remains a key concern. In 2005, it continued to widen, increasing to more than 6 per cent of GDP. Although there are signs that the quality of financing is improving, the deficit is still largely funded by sizeable short-term flows. This leaves Turkey's balance of payments exposed to shocks and changes in investor sentiment.

Promoting International Financial Stability

The Fund remains the central institution charged with fostering global financial stability. The mission of the Fund—to promote global prosperity and financial stability—remains as valid today as ever and its four broad lines of activity—surveillance, lending, capacity building, and its work to assist low-income countries—represent the best channels through which it can achieve its objectives. The key challenge for the Fund is now to adapt its surveillance, lending, capacity building and governance structures, to meet the challenges of the 21st century.

In order to continue to effectively and credibly fulfill this obligation, the Fund must adjust to meet the rapidly evolving challenges of the international financial system. Managing Director de Rato, with the support of Canada and other Fund members, has recognized the pressing need for a strategic review of the Fund's direction in order to better focus its efforts on responding to these challenges. At the meeting of the International Monetary and Financial Committee in September 2005, the Fund membership endorsed the broad priorities he set forth in *The Managing Director's Report on the Fund's Medium-Term Strategy* and his suggested priorities for substantive reforms. The following sections discuss some of the work already underway on these priorities.

The IMF's Strategic Review

During his first year as head of the IMF, Managing Director de Rato discussed the Fund's strategic direction with staff, management, the Executive Board, as well as country authorities and outside observers. In September 2005, he set out his views on a vision to guide the day-to-day work and decisions of the Fund. The broad priorities set out in *The Managing Director's Report on the Fund's Medium-Term Strategy* are to:

- Make surveillance more effective.
- Adapt to new challenges and needs in different member countries.
- Help build institutions and capacity.
- Prioritize and reorganize the IMF's work within a prudent medium-term budget.
- Address the issues of fair quotas and voice.

In September 2005, the International Monetary and Financial Committee welcomed these broad priorities. The Fund is now developing specific proposals and timelines on the main tasks to implement substantive reforms in these areas and strategically refashion itself to increase its relevance, effectiveness and legitimacy.

Strengthening Surveillance

Making Surveillance More Focused

Through its surveillance role, the IMF monitors economic and financial developments and policies in individual member countries and globally. Fund surveillance is critical as it can identify emerging problems before they become crises. Improved surveillance by the IMF is central to crisis prevention as it supports member countries and the private sector by making information available for sound economic analysis, including better pricing of risk. This, in turn, leads to more stable capital flows.

The Fund has made considerable progress in strengthening its surveillance operations, especially by promoting enhanced transparency in member countries and improving its analytical tools for the early identification of countries' vulnerability to crisis.

Building on the Fund's 2004 biennial review of the implementation of surveillance, the Fund is now tightening the focus of surveillance, with a sharper focus on its core areas of expertise and on issues of national relevance and systemic importance for global economic and financial stability. A more selective and focused approach should allow the Fund to shape its advice to recognize the constraints and opportunities within countries. Canada supports the Fund taking a longer-term view of specific issues of importance to the global economy. This would further strengthen the Fund's contribution to fostering international financial stability.

Making Surveillance More Effective

Assessment of economic conditions in individual member countries and the global economy is a central pillar of the IMF's mandate and provides the basis for an ongoing economic policy dialogue with national authorities. In addition to the regular (usually annual) Article IV reports on economic developments, policies, and prospects in individual countries, the IMF conducts surveillance of developments in the global economy as a whole. These multilateral surveillance activities, published in the form of the semi-annual *World Economic Outlook* and *Global Financial Stability Report*, allow the Fund to take stock of trends and policy issues that would not be as clear if they were analyzed only at the level of individual countries.

The Fund also works with its members and other international institutions to develop best practices in key areas of policy that can be assessed in the context of its surveillance activities. These initiatives include work on standards and codes, data provision, strengthening financial sectors, and technical assistance. An element of strengthened surveillance is better integrating technical assistance and policy advice into the surveillance process to ensure that members have the expertise and sustained capacity to implement reforms.

IMF Transparency

Canada supports measures to enhance the transparency and accountability of the Fund's own operations. This reflects the view that the IMF's effectiveness depends in part on its ability to be transparent and fair in the provision of policy advice to its members, accountable for its advice and lending decisions, and open to external input and dialogue. The IMF has adopted a series of measures in recent years to improve transparency, including guidelines under which the Fund now publishes most of its policy papers as well as detailed information about its operations and finances. In 2005, Executive Directors reviewed the Fund's transparency policy and recommended measures to maintain the candour of staff advice and expedite the publication of Fund documents. The key initiatives in place to promote IMF transparency include the following:

- Publishing more information about IMF surveillance of members, including Public Information Notices (PINs), which provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular Article IV consultations. Over 80 per cent of IMF member countries have agreed to the publication of PINs. The Fund has also adopted a policy establishing a presumption of publication of Article IV reports. Canada's most recent PIN and Article IV report can be found on the IMF website at www.imf.org/external/country/can/index.htm.
- Encouraging countries to publish the mission statements that are prepared at the time of the IMF's Article IV consultations with member countries. Prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides a country's authorities with a statement of its preliminary findings. A number of countries, including Canada, now release these statements. Canada's most recent mission statement can be found on the IMF website at www.imf.org/external/country/can/index.htm.
- Releasing more information about countries' IMF-supported programs and the Executive Board reviews of these programs. The Fund has adopted a policy establishing a presumption of publication of Letters of Intent and other documents that underpin Fund-supported programs. Nearly all policy intention documents of countries requesting Fund financial assistance are published, and over three-quarters of staff reports on Article IV consultations and reports on the use of Fund resources are published. The publication of staff reports on the use of Fund resources in exceptional access cases would generally be a precondition for management to recommend approval or augmentation of a financing arrangement or completion of a review by the Executive Board.
- Publishing staff papers on key policy issues and issuing PINs of the Board discussions of these papers. In addition, the Fund is increasingly posting draft papers on important policy issues on its website so that the views of civil society can be taken into account. As well, more financial information is being released, including the sources of financing for the IMF's lending activities (i.e. it's quarterly financial transactions plan).
- Providing the public with substantially expanded access to the Fund's archival material.

To help improve economic policy making and strengthen the international financial system, the international community has called upon the IMF and other standard-setting agencies to develop standards and codes covering a wide range of economic and financial areas. In this effort, the Fund is responsible for its core areas of expertise. To date, the Fund has adopted a data dissemination standard, a code on fiscal transparency and a similar code with respect to monetary and financial policies.

The IMF has a key coordinating role in assessing observance of codes and standards through its Reports on the Observance of Standards and Codes (ROSCs), as well as through the joint IMF–World Bank Financial Sector Assessment Program (FSAP). In 2005, the Fund Executive Board reviewed the experience to date with both the FSAP and ROSC programs.

In March 2005, the Executive Board reviewed the experience with the FSAP, which remains a cornerstone of financial sector work by the Fund and the World Bank in member countries. About 120 countries, two-thirds of the membership, have participated or requested participation in the program. Feedback from country authorities underscored the usefulness of the program in diagnosing stability and development issues in financial systems and in charting appropriate policy responses.

Executive Directors agreed that the two key features of the program—its joint Bank-Fund character and voluntary nature—should remain unchanged to pool the resources and expertise of the two institutions and to ensure country ownership of the process. They noted that improved prioritization and streamlining have resulted in assessments that are better tailored to country circumstances. They endorsed the definition of the minimum element of an update as comprising an assessment of financial sector developments and progress in implementing earlier FSAP recommendations, and an average frequency of FSAP updates of about five years.

The review also enabled the Fund and the Bank to address member countries' suggestions for further improvement and to enhance the impact of the FSAP process. Some reform directions include: more systematic participation in Article IV consultations by financial sector specialists and more technical support from headquarters; more systematic technical assistance follow-up; and additional research into developmental and stability issues to better underpin policy advice in the financial sector. These reform directions, combined with further proposals from the 2006 reviews of the program by the Fund's Independent Evaluation Office and the Bank's Operations Evaluation Department and from the Fund's own strategic review, are expected to help strengthen the effectiveness of the program further. In this context, Executive Directors agreed to conduct another review on progress made in three years.

In July 2005, the Executive Board considered a joint IMF–World Bank staff paper on the standards and codes initiative, which was launched in 1999 as a prominent component of efforts to strengthen the international financial architecture by promoting greater financial stability, at both the domestic and international levels, through the development, dissemination and adoption

of international standards and codes. Executive Directors saw merit in maintaining the initiative, stressing that it has already delivered substantial results and that it is expected to yield further benefits, particularly in assisting members to implement institutional reforms. They generally agreed that the scope of the initiative and its key governance features should be left unchanged at this time.

Executive Directors recommended a number of changes to enhance the initiative's effectiveness. They called for stronger efforts to encourage country participation and supported a more flexible approach for updating reports, which would see an average update frequency of five years, with flexibility in frequency and scope to allow for country-specific circumstances and needs. They also supported measures to strengthen the integration of the initiative with Fund surveillance and provision of technical assistance. In particular, to ensure adequate transfer of knowledge between departments, ROSC teams would identify a list of key recommendations of macroeconomic relevance to be followed up in Article IV consultations, and post-ROSC wrap-up meetings between the ROSC teams and the area departments would take place to discuss the list. In line with the conclusions of the latest biennial review of surveillance, Executive Directors stressed the need to reflect ROSCs' relevant findings in Article IV reports. Directors agreed to conduct another review in three years.

In addition to the ROSC and the FSAP, the IMF is involved in international efforts to combat financial abuses that threaten the integrity and stability of the international financial system. In particular, the Fund has:

- Expanded its anti-money laundering work, including through FSAPs, to cover legal and institutional frameworks.
- Extended its involvement beyond anti-money laundering to efforts aimed at countering terrorist financing.
- Accelerated its program of offshore financial centres and undertaken onshore assessments in the context of the FSAP.
- Enhanced its collaboration with the Financial Action Task Force to develop a mutually acceptable global standard on anti-money laundering.
- Intensified its provision of technical assistance to enable members to implement the agreed-upon international standards and extended it to include help for the creation of financial intelligence units.

IMF members agree that technical assistance should play a central role in supporting the work of the IMF in crisis prevention and management, debt relief and poverty reduction, and capacity building in low-income and transition countries. Since the demand for IMF technical assistance normally exceeds the resources available, the IMF takes a number of considerations into account in setting priorities for country requests. Under guidelines approved in 2001, priorities for technical assistance are set in accordance with the IMF's core areas of specialization, its main program areas and its key policy initiatives, which enables a more systematic alignment of resource commitments with institutional priorities. At a March 2004 review, the Fund's Executive Board

emphasized the essential contribution of IMF technical assistance in helping low-income countries and countries emerging from conflict situations, in particular in laying the capacity, institutional and governance foundations for sustained growth and poverty reduction.

In recent years, the IMF has adopted a regional approach to the delivery of technical assistance and training. To help provide technical assistance in the Caribbean region, the Fund, in close collaboration with Canada, established the Caribbean Regional Technical Assistance Centre (CARTAC), which became operational in September 2001. Canada is the largest single donor to CARTAC, which is designed to strengthen the region's technical capability in financial sector regulation and supervision, tax administration and other areas. Canada is also a major financial contributor to the African technical assistance programs. The IMF opened a fifth regional technical assistance centre, the Middle East Technical Assistance Center, in Beirut, Lebanon, in October 2004.

The IMF's Surveillance of Canada's Performance

Each year, IMF officials hold meetings in Ottawa and selected regions of Canada as part of the Fund's Article IV surveillance activities. In December 2005, it released its preliminary conclusions on the most recent consultation, noting that Canada's macroeconomic performance remains impressive and the economic outlook is favourable. The Fund noted that Canada's fiscal framework continued to deliver an enviable performance relative to other industrial countries, with eight consecutive federal surpluses. In the Fund's view, the key challenge remains to improve the economy's flexibility and to support long-term growth, particularly by building on earlier initiatives aimed at ensuring the sustainability of the public health system, reducing the volatility of equalization payments to the provinces and improving Canada's productivity growth.

Enhancing Crisis Resolution

One of the IMF's primary goals is to reduce the frequency and severity of international financial crises. Despite crisis prevention efforts, financial crises still occur. The IMF is therefore engaged in the search for possible reforms to improve its capacity to manage and resolve financial crises. Canada welcomes ongoing efforts to advance crisis resolution initiatives, as these efforts will ultimately promote a stronger, more stable and more efficient international financial system.

Better Understanding Capital Account Crises

Today's crises (which often originate in the capital account of the balance of payments) can often be too large for the Fund to respond to merely by providing financial assistance. Improving the Fund's ability to respond to crises also requires it to better understand the dynamics of capital account crises,

including the behaviour of private capital markets. The Fund is working to identify the factors that will help countries to regain early and sustained access to international capital markets in a manner that places less emphasis on large-scale assistance. In February 2006, Managing Director de Rato announced proposals to strengthen the Fund's financial and capital market work by creating a new department that will be a centre of excellence for all aspects of financial, capital market, and monetary work in the IMF. The new department will merge the functions and staff of two existing departments: the International Capital Markets Department and the Monetary and Financial Systems Department. This department will continue the Fund's efforts to help countries gain access to international capital markets, an important step in helping the poorest countries make a breakthrough in poverty reduction. The semi-annual *Global Financial Stability Report* will summarize the Fund's research in this area. The Managing Director also announced the establishment of a Financial Sector Steering Committee, which he will chair. This committee will guide the merger, coordinate financial sector work, and ensure Fund management's close attention to financial sector issues. In addition, the Capital Markets Consultative Group will continue to promote a better dialogue between member countries and private investors and creditors.

The IMF's Approach to Capital Account Liberalization

The IMF established the Independent Evaluation Office (IEO) in 2001 to undertake objective assessments of the IMF's operations, policies and programs. The IEO operates independently of IMF management and at arm's length from the Fund's Executive Board. In 2005, it assessed the Fund's approach to capital account liberalization. In recent years, the role of the IMF in capital account liberalization has been a topic of major controversy, particularly because this is an area where there is little professional consensus. While the IEO did not find that the Fund exerted significant leverage to push countries to liberalize their capital accounts more quickly than they wanted to, it did find that the risks of liberalization and the policy and institutional responses needed to mitigate them were insufficiently highlighted. The Fund did not translate the risks into operational advice on pace and sequencing of reforms until later in the 1990s. In multilateral surveillance, the Fund focused on the benefits of greater access to capital flows, while paying comparatively less attention to the risks. As a result, the Fund focused on advising recipient countries on how to manage inflows, rather than addressing the supply-side factors in source countries that drive capital flow volatility. The Fund has learned from experience and from the emerging professional literature and adapted its work on capital account issues in response. The IEO recommended that the Fund clarify its approach to capital account issues, including by sharpening its advice based on particular risks facing specific countries, and pay greater attention to the supply-side factors of international capital flows.

Implementing the New Access Policy Framework

In 2002, the Fund established clearer rules and procedures for determining exceptional access to its resources (i.e. loans that are larger than allowed under normal IMF lending rules) for countries that face financial crises. These were reviewed in April 2005 and Directors agreed that there was no strong basis for changing the existing framework. Canada supports strict adherence to these criteria to help shape the expectations of members and markets alike, to provide a benchmark for decisions regarding program design and access, to safeguard the integrity of the IMF's resources and to ensure uniform treatment of members. In addition, the procedures for consideration of exceptional access requests should be further strengthened by taking alternative forecasts into account and by giving timely and careful consideration to the financial implications that these exceptional access decisions will have for the Fund.

Exceptional Access Policy Criteria and Procedures

In September 2002, the IMF's Executive Board endorsed the following criteria that, at a minimum, would need to be met to justify exceptional access to IMF resources for member countries facing a capital account crisis:

- The member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within normal limits.
- A rigorous analysis indicates a high probability that the higher level of debt remains sustainable.
- The member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that IMF financing would provide a bridge.
- The policy program of the member country provides a reasonably strong prospect of success, based on both the member's adjustment plans and its institutional and political capacity to implement that program.

The Board also expressed support for strengthening procedures for decision making on exceptional access proposals, including:

- Increasing the burden of proof required in program documents by requiring more extensive justification of the level of access, a rigorous analysis of debt sustainability, and an assessment of the risks to the IMF arising from the exposure and the effect on the IMF's liquidity position.
- Formalizing early Executive Board consultation on the status of negotiations in exceptional access cases.
- Requiring *ex post* evaluation of programs of exceptional access.

Promoting the Adoption of Collective Action Clauses and Assessing Voluntary Codes of Conduct

The Fund is also exploring options that governments and the private sector could adopt to help resolve problems such as sovereign debt issues without financial assistance from the Fund. One of the impediments to successful restructurings of sovereign debt in emerging market financial crises has been the sheer number of creditors involved and the difficulties they face in coordinating and communicating amongst themselves. Collective action clauses are an effective crisis prevention and resolution mechanism, as they facilitate more timely and orderly restructurings of sovereign debt. They do so by providing for a mechanism for creditors as a whole to delegate negotiations to a sub-group of lenders, with voting on the restructuring offer occurring in such a way that the majority decision is binding on all creditors. Significant progress has been made in this area, with most emerging market borrowers adopting collective action clauses in their recent bond issues. In 2002, only about 30 per cent of outstanding emerging market bonds included collective action clauses. By the middle of 2005, over 50 per cent of emerging market bonds in circulation included such clauses. The widespread adoption of collective action clauses in sovereign bond contracts is an important development in promoting the orderly resolution of financial crises.

The private sector and a group of emerging market economies have also drafted a voluntary code of conduct to guide sovereign debtors and their creditors in the restructuring of sovereign debt. While refinements will likely be made to this draft code over time, it does provide a broad framework for improving the international community's crisis management efforts and should help guide overall relations between sovereign debtors and their private sector creditors. In addition, the IMF is continuing to look for ways to improve its crisis resolution efforts by maintaining an active dialogue with private market participants and debt managers and reviewing the implementation of its lending into arrears policy.

Improving IMF Lending

A major focus recently has been to examine how resources can be used more efficiently to meet the needs of member countries in promoting economic reform. To that end, the IMF has adopted new guidelines on the conditions attached to its loans and streamlined the structure of its lending facilities.

Focusing Conditionality and Fostering Ownership

An important feature of IMF arrangements is the "conditionality" that borrowing countries undertake to correct their underlying balance of payments problems and restore their ability to repay the Fund. Over time, conditionality had broadened in scope and become more complex, leading to concerns about its impact and effectiveness. In the fall of 2002, the IMF approved new guidelines on the design and implementation of conditionality in Fund-supported programs.

The new guidelines are aimed at streamlining and focusing conditionality in areas of IMF core competencies in order to enhance the effectiveness of Fund-supported programs and promote national ownership of reforms. They emphasize the need to focus conditionality on policies that are critical to achieving the macroeconomic objectives of programs. The guidelines are based on several interrelated principles, including national ownership of reform programs, parsimony in the application of program-related conditions, effective coordination with other multilateral institutions, and clarity in the specification of program conditions.

Conditions will normally consist of macroeconomic and structural measures that are within the Fund's core areas of responsibility. Where structural reforms that are critical to a program's success lie outside the Fund's core areas of expertise, the Fund should work with the World Bank and other international financial institutions, which have a comparative advantage in the design and monitoring of these measures. A key aspect is that the country should take primary responsibility for its own policies and that conditionality, if well designed and established through a mutually acceptable process led by the member, can strengthen and promote ownership. The IMF has observed that implementation of the new guidelines is leading to changes in the scope and design of Fund programs—structural conditionality is more focused on the Fund's core areas of competence and the average number of structural conditions has declined.

Promoting Policy Improvements in Member Countries

The Fund has recognized the importance of good governance as an element of a country's successful transition from Fund programming. Canada supports this emphasis and believes that sensible policy choices are essential to a country's economic performance and to its citizens' well-being. This was reflected in Canada's strong support for the Fund's efforts to persuade Zimbabwe to change its policy stance. Since 2001, the Government of Zimbabwe has been unwilling to cooperate with the Fund or the international community to improve its policies. In the summer of 2005, the Government launched "Operation Restore Order," which the United Nations estimates has cost 700,000 Zimbabweans their homes or jobs or both, with a further 2.4 million affected to varying degrees. Canada expressed dismay at this disregard for the most basic rights and dignity of the Zimbabwean people. During this period, the Government of Zimbabwe also went into arrears with the Fund, a dereliction of its obligations as a member that could have led to its expulsion from the Fund. Canada's concern over Zimbabwe's poor governance culminated in our Executive Director's strong support for the IMF to proceed with the country's compulsory withdrawal from the Fund. While Zimbabwe is now paying its arrears, removing the immediate prospect of expulsion, Canada continues to press Zimbabwe to improve its social and economic policies.

In 2005, Directors reviewed the experience with the new guidelines and concluded that substantial progress has been made in aligning practice with the new guidelines, but that room for improvement remains. In particular, conditionality is now more focused on issues critical to the success of Fund programs, clarity on the conditions included in programs has increased and collaboration with the World Bank is improving. Improvements could be made in program implementation and country ownership. To foster ownership, Directors encouraged staff to work with authorities to establish a common understanding of the nature of the problems facing the country and to develop alternative policy options.

Safeguarding the IMF's Cooperative Nature

The IMF's cooperative nature is reflected in its resource base, which is derived primarily from the quota subscriptions of member countries, and the consensus-based nature of its decision-making process. If the Fund is to promote international financial stability effectively, it must have adequate resources and ensure that its quota structure and governance arrangements are representative of the membership.

The Fund measures the adequacy of its resources through its forward commitment capacity. This represents the amount of quota-based and non-concessional resources available for lending to member countries. The one-year forward capacity reflects the IMF's stock of usable resources minus undrawn balances for current lending arrangements, plus projected repayments by IMF borrowers over the coming 12 months. A prudential balance—to safeguard the liquidity of creditors' claims and to take account of a potential erosion of the resource base—is also deducted to arrive at the final forward commitment amount. At the end of 2005, the IMF's one-year forward commitment capacity amounted to SDR 106 billion (US$153 billion). With the repayment of outstanding credit by Brazil and Argentina in early 2006, this capacity has increased significantly beyond this level.

Quota Resources

Quota reviews are held every five years to assess the adequacy of IMF resources. The Twelfth Quota Review was concluded in January 2003, but the broad support necessary for a quota increase did not emerge. It was agreed during the Thirteenth Quota Review period to assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy, and to consider measures to strengthen the governance of the Fund. While the Fund has sufficient resources to meet projected needs and no general increase in quotas is required, a redistribution of quotas and voting power to those rapidly growing economies, largely in Asia, whose quotas have not kept pace with their greater role in the global economy would further strengthen the legitimacy of the Fund's governance arrangements. At the September 2005 meeting of the International Monetary and Financial Committee, Canada's Finance Minister stressed the need for the IMF to move forward on quota reform. The Committee asked the Fund to continue its consideration of issues of quotas and voting power, and asked for a progress report for its meeting in April 2006.

Management Practices

To keep pace with a changing global economy, the Fund requires a structure that is accountable with a modern management focus to help it deliver effective results. Canada supports efforts by the Fund to strengthen the linkage between its strategies and its administrative budget. The Executive Board has endorsed a new approach to enhance the budget's strategic focus and better support priority setting. For new initiatives, the Fund will seek the required resources through reallocation or from efficiency savings. A new medium-term budget framework will set out the overall resource envelope and allocate resources for desired outputs. Annual budgets will be prepared in terms of outputs, and performance indicators will be developed and incorporated. A review of the Fund's employment structure, compensation and benefits is underway and will be completed before the end of the Fund's fiscal year.

How to Access Information at the IMF

A vast array of Fund information—including fact sheets, press releases, speeches, the *IMF Survey*, annual reports, world economic outlooks, staff country reports and working papers—is available on the Fund's website at www.imf.org. In addition, the IMF's Publications Services provides a wide variety of Fund documents on the policies and operations of the IMF, as well as world financial and economic developments:

- IMF annual reports.
- *World Economic Outlook.*
- *Global Financial Stability Report.*
- IMF staff country reports.
- *International Financial Statistics.*
- *Annual Report on Exchange Arrangements and Exchange Restrictions.*
- Press releases.
- *IMF Survey.*
- Publications of the Independent Evaluation Office.

Publications Services is located at 700 – 19th Street N.W., Washington, DC 20431, USA. Phone: (202) 623-7430; fax: (202) 623-7201. Internet e-mail address: publications@imf.org.

Strengthening Support for Low-Income Countries

The IMF is fully committed to supporting low-income members in advancing towards the United Nations Millennium Development Goals through its poverty reduction and debt relief efforts. Canada places a high priority on reducing poverty and ensuring that debt relief goes to the poorest, most heavily indebted countries committed to good governance. Although the World Bank

is the central institution for poverty reduction, the IMF plays a role in promoting macroeconomic stability—a key condition for achieving poverty reduction and growth. Direct anti-poverty measures are playing a central role in programs supported by the IMF through its Poverty Reduction and Growth Facility (PRGF). These programs are consistent with nationally owned Poverty Reduction Strategy Papers prepared by borrowing countries, and are based on a process involving the participation of civil society, non-governmental organizations, donors and international institutions.

In September 2005, the International Monetary and Financial Committee declared its support for the proposal to provide 100 per cent cancellation of debts owed by heavily indebted poor countries to the IMF, the World Bank's International Development Association and the African Development Fund. This will provide significant additional resources to help these countries reach the Millennium Development Goals and reinforce their longer-term debt sustainability. The Committee welcomed an approach that respects the Fund's principle of uniformity of treatment, recognizes the importance of maintaining the IMF's capacity to provide financing to low-income countries, and acknowledges that countries benefiting from irrevocable debt relief should have demonstrated sound policies and high standards of governance. This Multilateral Debt Relief Initiative is examined further in the "Joint Issues" section of this report.

The IMF reacted quickly to the Asian tsunami disaster of December 2004. Drawing on its expertise, the IMF immediately provided advice and technical assistance to assess the macroeconomic impact and budgetary and balance of payments needs related to the disaster. To support recovery, the Fund also committed to provide financial assistance, primarily through an emergency assistance facility, which can quickly make sizeable funds available without an IMF program. The IMF estimated that its financing could be in the order of US$1 billion for the most affected countries. In January 2005, the Executive Board approved modifications to the emergency assistance facility to allow funds to be provided under this facility to low-income countries at a subsidized interest rate, with the subsidy element financed through donor resources. Canada contributed $5 million to this effort. In 2005, this facility provided emergency assistance to the Maldives and Sri Lanka to assist their recovery from the tsunami.

Policy Support Instrument

The IMF has been working on new instruments to strengthen its support to low-income countries. At the September 2005 meeting of the International Monetary and Financial Committee, Governors endorsed the Policy Support Instrument (PSI). Based on a policy initiative put forward by the Canadian Executive Director, this non-lending instrument will be available to members that do not need, or want, IMF financial assistance, but voluntarily request IMF endorsement and continued assessment of their policies as meeting the standard for accessing Fund financing. The country-owned policy frameworks designed by the authorities would consolidate medium-term macroeconomic

and financial stability, and deepen reforms in support of poverty reduction and economic growth. The PSI will be particularly useful to countries with strong macroeconomic foundations that nonetheless continue to depend on other donors for development financing or that are in transition to market-based financing. It will also help eliminate the need for countries to borrow from the Fund merely to demonstrate their commitment to the sound policies needed to unlock Paris Club debt rescheduling or cancellation.

Nigeria and the PSI

In 2005, Nigeria became the first country to use the PSI. The Executive Board of the Fund approved a PSI for Nigeria on October 17, 2005. The Paris Club agreed to accept this as adequate demonstration of Nigeria's commitment to sound economic policies. Consequently, Paris Club creditors agreed to allow a debt cancellation estimated at US$18 billion on October 20, 2005, representing an overall cancellation of about 60 per cent of Nigeria's debt to the Paris Club, in exchange for payments of US$12.6 billion to Paris Club creditors over the next six months. This cancellation would be phased with IMF reviews under the PSI. This innovative treatment of Nigeria's debt offered advantages to Nigeria and Paris Club creditors.

Exogenous Shocks Facility

A new facility in the PRGF Trust will also be available to complement existing instruments by providing timely concessional support to low-income members (outside of regular PRGF arrangements) and that are facing exogenous shocks. Following the October 2004 Development Committee request for the Bank and the Fund to accelerate their work on means to help mitigate the impact of exogenous shocks on low-income countries, the Fund staff recommended modifications to the PRGF Trust in July 2005 to create an Exogenous Shocks Facility (ESF) within the PRGF. Because shocks, such as spikes in energy prices or natural disasters, can have significant negative economic impacts on low-income countries, especially those whose economies lack diversification and have limited capacity to build up reserves, IMF members agreed the Fund could usefully supplement national efforts to reduce vulnerability to shocks. The ESF will provide temporary external financing for low-income countries qualifying for the PRGF that experience a sudden and exogenous shock. In September 2005, the Group of Eight (G8) called for the immediate establishment of the ESF as recommended by the IMF. Canada, like other G8 countries, supported the creation of this facility to supplement debt relief under the PRGF. The ESF structure was formally established within the PRGF in December 2005 and several countries have already indicated their intention to finance the ESF, which will begin operation once sufficient financing has been provided.

Lending Developments in 2005

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, as well as the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 2005, the IMF had lending arrangements worth SDR 21.7 billion in place for 44 member countries (see Annex 1). This represented a sharp decline from the SDR 58.7 billion outstanding a year earlier, reflecting in large part the decisions by Brazil and Argentina—the two countries with the largest outstanding IMF credit—to repay their outstanding drawings. The IMF approved a total of 6 new Stand-By Arrangements in 2005, bringing the number of current Stand-By Arrangements to 12. Of these, 7 are being treated as precautionary, with borrowers having indicated that they do not intend to draw on the funds committed to them.

The IMF also provides emergency assistance to help member countries with urgent balance of payments financing needs in the wake of natural disasters or in post-conflict situations. In 2005, SDR 130 million in emergency assistance loans was provided to countries in post-conflict situations and for natural disaster relief. For post-conflict low-income countries, the interest rate on IMF loans is subsidized down to 0.5 per cent per year, with the interest subsidies financed by grant contributions from bilateral donors. Canada is the third largest contributor of post-conflict subsidies.

Table 1
IMF Resource Flows (January 1 to December 31)

	2004	2005
	(in SDR billions)	
Total purchases	5.0	2.70
Of which:		
Stand-By Arrangements	3.7	2.04
Post-conflict/natural disaster	0.3	0.13
Extended Fund Facility	0.2	0.13
Poverty Reduction and Growth Facility	0.8	0.40
Total repurchases	14.7	30.10
Net purchases	- 9.7	-27.40

Lending decreased under the IMF's concessional facility, the Poverty Reduction and Growth Facility (PRGF). About 75 per cent of PRGF-eligible countries had PRGF arrangements in 2005, with eight new arrangements approved during the year.

Managing Canada's Interests

The Honourable James Michael Flaherty, Minister of Finance, is Canada's Governor to the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the International Monetary and Financial Committee, his plenary statement at the IMF and World Bank annual meetings, and periodic meetings with the Managing Director of the Fund. The Minister's statements are available on the Department of Finance Canada website at www.fin.gc.ca. The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF.

The ongoing management of Canada's interests at the IMF is the responsibility of the Executive Director. Canada's representative on the Executive Board was Kevin G. Lynch until March 5, 2006. Elected in October 2004 by constituency Governors, Mr. Lynch was one of 24 Executive Directors. In addition to Canada, he represents Ireland and 10 Caribbean countries, which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 are from industrialized countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance Canada coordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also provides advice on IMF issues to Canada's Executive Director. Other involved government organizations include Foreign Affairs Canada and the Canadian International Development Agency. Within the Department of Finance Canada, the International Trade and Finance Branch is responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board. The Department and Canada's Executive Director's office also work closely with Canada's World Bank Executive Director's office and meet regularly with Canadian non-governmental organizations.

Parliament is informed of the activities and operations of the Bretton Woods institutions through the tabling of this annual report on their operations and through appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. Canada supported all issues brought forward in 2005 for votes by Executive Directors and Governors.

Canadian Executive Director's Office

In addition to the Executive Director, Canada's office is staffed by two Canadian senior advisors and two advisors, one of whom rotates with other members of the constituency. Ireland staffs the Alternate Executive Director's position and the Caribbean countries staff a third senior advisor's position.

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board's discussions on a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Members of the Executive Director's Office

Executive Director	Kevin G. Lynch (Canada)*
Alternate Executive Director	Peter Charleton (Ireland)
Senior Advisor	Paul Jenkins (Canada)
Senior Advisor	Richard Campbell (Caribbean)
Senior Advisor	Mark Kruger (Canada)
Advisor	Shawn Ladd (Canada)
Advisor	Yvette Alvarez (Belize)
Administrative Assistant	Catherine Byrne (Ireland)
Administrative Assistant	Liz Craib (Canada)
Phone/fax	(202) 623-7778/(202) 623-4712
Address	11-112, 700 – 19th Street N.W., Washington, DC 20431, USA klynch@imf.org cbyrne@imf.org

* Kevin G. Lynch was Executive Director until March 5, 2006, and became Clerck of the Privy Council on March 6, 2006. Jonathan T. Fried was elected Executive Director on April 7, 2006

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 6,369.2 million, or about 3 per cent of total quotas. Canada's quota subscription is a government asset, which is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These non-Canadian-dollar amounts are also part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is recorded as a non-budgetary expenditure in the budget of the Government of Canada.

Only a very small portion of the Canadian-dollar part of Canada's subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations by other member countries. In 2005, Canada received SDR 15.1 million on its net creditor position in the IMF. The net income from Canada's net creditor position with the Fund is paid into the Government of Canada's Exchange Fund Account, adding to our foreign exchange reserves.

Table 2
Canada's Financial Position in the IMF

	December 31, 2005	December 31, 2004
	(in SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars	5,388.9*	4,219.6*
Reserve position in the Fund	980.3**	2,149.6**

* In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian-dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian-dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

** This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow and New Arrangements to Borrow. As the name suggests, Canada's reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of 2005, Canada's holdings of SDRs amounted to SDR 627.6 million, or 80.5 per cent of Canada's cumulative allocation of SDRs. In 2005, Canada held SDRs in an amount below its allocation, and so paid net interest of SDR 4.2 million.[3]

[3] When a member's holdings of SDRs are greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

In 2005, in line with earlier commitments, Canada made further contributions to the IMF's Poverty Reduction and Growth Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's total commitment to the Poverty Reduction and Growth Facility is a loan of SDR 700 million and a grant of approximately SDR 190 million. At the end of 2005, Canada had extended the full amount of SDR 700 million in loan payments under these arrangements, and subsidy contributions equalled SDR 188.4 million of the SDR 190 million. In 2005, Canada received SDR 9.7 million in interest earned on loans to the Poverty Reduction and Growth Facility.

Further, Canada is a participant in a financing arrangement established to supplement the Fund's regular resources in the event of financial crises, the New Arrangements to Borrow (NAB), which was not used in 2005. Canada is also a participant in the General Arrangements to Borrow (GAB), an earlier credit arrangement established by the Group of Ten. Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 2005.

New Arrangements to Borrow

The following are the main features of the NAB, which came into force in 1998:

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C$65 billion) to the Fund in case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the GAB, which remains in force. However, the NAB would be the first and principal recourse of the IMF if supplementary resources were needed.

Challenges Ahead

A key challenge for the Fund is to ensure that it meets the needs of an increasingly integrated global economic system. The evolution of the Fund within the international financial system should reflect changes in the world economy. In particular, there is a need to assess the role of the Fund in a world of large-scale private capital flows and to adapt its governance to reflect changes in the world economy. To meet these challenges:

- The Fund should continue to strengthen its surveillance role to ensure that its advice addresses the most pressing challenges confronting its members and forms an integral part of the debate over policy responses. This should include advice on appropriate exchange rate arrangements in member countries.
- The Fund should implement the strategic direction outlined in *The Managing Director's Report on the Fund's Medium-Term Strategy* and endorsed by its membership to enhance the effectiveness of its role in the international economic system over the medium and longer term. This includes working to ensure that its management practices support its objectives and that it has the necessary tools to fulfill its mandate.
- The Fund needs to enhance it's capacity to prevent and resolve international financial crises.
- The Fund will also need to consider how best to support its policy responsibilities in the face of a reduced income stream as middle-income countries repay their loans and lower-income countries adopt non-borrowing Policy Support Instrument programs.

World Bank

Benefits of Membership

Membership in the World Bank (the Bank) affords Canada an important voice on key development issues in the world's premier multilateral development institution. In addition, it provides a key forum for policy advice and financial support crucial to improving borrowing members' longer-term development and poverty reduction prospects, including the achievement of the Millennium Development Goals. It also assists members by providing concessional loans and grants and by improving access of developing and transition countries to world financial markets.

Canada's capital share of 2.85 per cent gives it a seat on the Bank's Executive Board and on the Development Committee of the Boards of Governors of the Bank and the IMF. Canada has the opportunity to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders help to guide the Bank in improving developing countries' economic, social and environmental performance. Through its engagement with the Bank, Canada's influence in developing countries can be leveraged beyond what can be achieved through bilateral programs. For example, Canada has played a leading role in the Bank's implementation of the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative, in shaping the institution's response to post-conflict countries, as well as in its efforts to assist developing countries to combat terrorist financing and money laundering.

Bank membership also provides the Canadian Government with access to the institution's research and policy work, which enriches our own understanding of international development. The Canadian International Development Agency (CIDA), for example, is able to draw on Bank analytic and technical expertise in order to gain a more comprehensive understanding of the social and economic policy environments that are conducive to effective development results. CIDA is also able to leverage its own resources with those of the Bank through participation in a growing number of partnerships with, and in global programs led by, the Bank. Finally, the Bank provides substantial procurement opportunities for Canadian companies and individuals. In FY 2005, Canadian firms were awarded contracts worth more than US$90 million under Bank-financed contracts associated with investment lending.

Overview

In FY 2005, the Bank committed loans, grants and credits of US$22.3 billion to 103 developing and transition countries (see Annex 2). The International Bank for Reconstruction and Development (IBRD) committed US$13.6 billion in new loans in FY 2005, up substantially from US$11.0 billion in FY 2004. The Bank provided concessional loans and grants through the International Development Association (IDA) valued at US$8.7 billion in FY 2005, or roughly US$400 million less than recorded in FY 2004.

Geographic and Sectoral Focus of Lending

Reflecting significant adjustment lending to large South American emerging market borrowers, new IBRD lending commitments in FY 2005 were highest in the Latin America and Caribbean region, which accounted for 37 per cent of all IBRD lending. The Europe and Central Asia region had the next highest lending share at 26 per cent. Lending to the South Asia region, at 15 per cent, increased dramatically over FY 2004 largely due to the IBRD's response to the tsunami and the flooding in Bangladesh. Lending to the East Asia and Pacific region held reasonably stable at 13 per cent, and the Middle East and North Africa region at 9 per cent. Given its non-concessional lending terms, the IBRD is not a major lender to African countries.

In FY 2005, Africa accounted for 45 per cent of IDA lending although this was below IDA's indicative 50 per cent target for the region. South Asia accounted for 33 per cent of IDA commitments and the East Asia and Pacific region and Europe and Central Asia region accounted for 12 per cent and 6 per cent respectively. Latin America and the Caribbean accounted for 3 per cent of IDA lending.

The Bank's strong commitment to investing in people is reflected in the sectoral breakdown of both IBRD and IDA operations. Support for social sector investments, in particular, remains a high priority. The areas of social protection, social development and human development accounted for 30 per cent of total World Bank commitments in FY 2005. Approximately 27 per cent of IBRD commitments and 32 per cent of IDA commitments supported investments in the education, health and other social services, and water, sanitation and flood protection sectors. There is also a renewed emphasis on growth, including infrastructure, agriculture and rural development.

Non-Lending Operations

In FY 2005, the Bank continued its strong focus on non-lending services in order to enhance the developmental effectiveness of its operations. The Bank provides a wide range of advisory, analytic, training and knowledge-related services in support of building domestic capacities. Through its non-lending activities, the Bank provides valuable policy advice that can bolster the effectiveness of its investment and adjustment lending.

How the World Bank Group Works

The World Bank Group is made up of five complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

The IBRD and IDA (together commonly known as the World Bank) provide funding for investment projects and for adjustment—or economic and sector reform—operations. The IBRD lends on non-concessional terms (charging an interest rate that is slightly above its own borrowing costs) to better-off borrowing members, while IDA provides 35- and 40-year interest-free credits and grants to the poorest borrowers. IDA is the largest source of development finance for the world's poorest countries. The IBRD raises its funds primarily on international markets on the strength of its triple-A credit rating. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than the rate they could secure on their own borrowings. IDA, on the other hand, receives grant funding from donors, loan repayments and annual allocations from IBRD net income. As of June 2005, outstanding IBRD loans and IDA credits amounted to US$104.4 billion and US$120.9 billion respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises in developing countries. The IFC provides services such as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 2005, the total committed loan and equity portfolio was equivalent to US$24.6 billion. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding portfolio as of June 2005 amounted to US$5.1 billion. ICSID provides facilities for the conciliation and arbitration of investment disputes between firms from member countries and investors. Canada is not currently a member of ICSID.

Each of the 184 shareholders has a seat on the Board of Governors of the World Bank. Most decisions on policy, operational and administrative issues, however, have been delegated to the 24-member Executive Board. Membership on the Executive Board is evenly split between developed and developing countries. A number of Executive Directors from developed countries represent constituencies with borrowing country members. The voting power of each Executive Director is based on the shareholding they represent. The five largest shareholders, France, Germany, Japan, the United Kingdom and the United States, appoint an Executive Director, while other countries are represented in constituencies. Canada leads a constituency shared with Ireland and the Commonwealth Caribbean countries.

Strengthening the Effectiveness of Poverty Reduction

The Bank has sharpened its support for the development agenda through a two-pillar strategy for reducing poverty that is based on building the climate for investment, jobs and sustainable growth, and on investing in poor people and empowering them to participate in development. In FY 2005, the Bank's work remained closely aligned with this framework. The Bank recognized the need for it to intensify its efforts in implementing the framework by sharpening the tools and procedures for meeting the development challenges set forth in the Millennium Development Goals. Executive Directors reviewed a number of progress reports on ongoing efforts at harmonizing operational policies, procedures and practices among donors; on increasing the effectiveness of programs such as the poverty reduction strategies and Bank conditionality; on meeting the needs of low-income countries, including heavily indebted poor countries and low-income countries under stress; and on strengthening partnerships with middle-income countries.

Focusing Operations on the Millennium Development Goals

The recognition that achievement of the Millennium Development Goals (MDGs) depends heavily on empowerment of the poor underpins the Bank's approaches to countries and sectors. The MDGs now form the cornerstone of the Bank's strategic planning and operational priority setting. The Bank is also working closely with the United Nations (UN) system and the Development Assistance Committee of the Organisation for Economic Co-operation and Development in strengthening international monitoring of the progress being made towards achieving the MDGs. To date, progress has been mixed, with the overarching poverty goal being met globally (due to progress in India and China), but with many other goals (e.g. health, gender equality in education, environment) unlikely to be met either globally or on a country basis. Without further progress, achieving the MDGs will be seriously jeopardized—especially in Sub-Saharan Africa, which is off track on all the MDGs.

A key task for the Bank in the monitoring exercise is to develop a framework for benchmarking performance among developing countries, donor agencies and multilateral institutions. The Bank, together with the IMF and the UN system, is strengthening its country and thematic databases. Publicly available data will be posted on the Bank's Development Gateway website (www.developmentgateway.org). As national capacity in gathering and assessing statistics is critical to efforts for monitoring progress towards the MDGs, the Bank has developed and begun to implement the Statistical Capacity Building Program to help developing countries strengthen statistical systems, institutional capacity and planning.

Millennium Development Goals

At the Millennium Summit in September 2000, world leaders adopted specific development goals that can be monitored. Subsequently, the United Nations published 8 Millennium Development Goals and 18 associated targets in the September 2001 report of the UN Secretary General as part of a road map to implement the UN Millennium Declaration. The eight goals are:

- To halve, between 1990 and 2015, the proportion of people living on less than one US dollar a day; and to halve, between 1990 and 2015, the proportion of people suffering from hunger.
- To ensure that, by 2015, all children can complete primary schooling.
- To eliminate gender disparity in primary and secondary education, preferably by 2005, and at all education levels no later than 2015.
- To reduce by two-thirds, between 1990 and 2015, the mortality rate for children under 5 years old.
- To reduce by three-quarters, between 1990 and 2015, the maternal-mortality ratio.
- To have halted and begun to reverse, by 2015, the spread of HIV/AIDS; and to have halted and begun to reverse, by 2015, the incidence of malaria and other major diseases.
- To integrate the principles of sustainable development into country policies and programs and to reverse the loss of environmental resources; and to halve, by 2015, the proportion of people without sustainable access to safe drinking water.
- To develop a global partnership for development including through trade openness and debt relief.

At the request of the Development Committee, the World Bank has also been working closely with the UN—which has the lead responsibility for tracking progress towards the MDGs—and the IMF to develop a framework to monitor the implementation of policies that are necessary to promote the attainment of the MDGs and, on this basis, to produce the annual *Global Monitoring Report* (GMR). This report underpins the Development Committee's regular monitoring of progress on the policy agenda and reinforces the accountabilities of the key actors—developing and developed countries, as well as multilateral institutions.

The Development Committee discussed the second GMR in April 2005. The report put forward a five-point agenda for accelerating progress towards the MDGs: (1) anchoring actions to achieve the MDGs in country-led development strategies; (2) improving the environment for stronger, private-sector-led economic growth; (3) scaling up delivery of human development services (health, education); (4) dismantling barriers to trade; and (5) substantially increasing the level and effectiveness of Official Development Assistance.

The Bank is also working in partnership with developing countries, other aid agencies and civil society more directly to design and implement initiatives to support developing countries in their efforts to reach specific MDGs. These efforts include "fast-track" initiatives that will target Bank and donor resources to countries demonstrating strong commitment to good governance and improving social sector programs.

Economic Prospects for Developing Countries

Real gross domestic product (GDP) in developing countries is estimated to have grown by 6.4 per cent in 2005, down from 7.3 per cent in 2004, reflecting the impact of oil and other commodity price changes, exposure to global manufacturing and trade, as well as country-specific factors. Economic prospects, however, vary substantially both across and within regions. In 2006, growth is expected to decline slightly.

Following solid growth of 5.6 per cent in 2004, real GDP growth in **Latin America** is expected to have moderated to 4.1 per cent in 2005. Strong export growth and improved macroeconomic policy performance should help to sustain growth going forward, while widespread pre-financing of future debt repayments will help reduce the risk of financial market volatility in response to current political uncertainties and forthcoming elections. Moreover, strong oil production and prices have continued to support growth.

East Asia remained the world's fastest-growing region for the year as a whole. Growth in the region was largely boosted by real GDP growth of 9.0 per cent in China. In **South Asia**, prospects remain solid, with growth in India and Pakistan estimated at 7.1 and 7.4 per cent, respectively.

The December 26, 2004, tsunami had minimal lasting economic impact on the hardest-hit countries of Indonesia, Sri Lanka, Maldives and India.[4] Part of the reason for this was the fact that damage generally did not occur in key economic centres. Furthermore, governments of the affected countries received a substantial amount of aid for rebuilding. Recovery is well underway in most affected areas, with the exception of the Aceh province of Indonesia, where many continue to be out of work. Growth in **Africa** is expected to have slowed to 4.5 per cent in 2005, following the 5.3-per-cent expansion in 2004. The economies in the region have been supported by strong global demand, improved domestic macroeconomic policies, progress on structural reforms and fewer armed conflicts. However, growth continues to be lower than the 7-per-cent annual growth necessary to achieve the MDGs.

[4] Economic disruption in the less severely hit countries of Thailand, Malaysia, Bangladesh, Somalia, Kenya and Tanzania was negligible. Seychelles was moderately affected.

Natural Disasters

Disaster mitigation is at the core of the Bank's mission of fighting poverty. Since its establishment, the Bank has been a leader in providing post-disaster recovery and reconstruction assistance. The Bank also leads with efforts to promote more effective disaster risk management, including through training and technical assistance.

The Bank has been promoting a comprehensive risk management framework. This framework includes developing a better understanding of the risks facing a country and the scale of potential losses, taking steps to mitigate the potential effects of disasters, and examining the potential to use existing lending products more creatively to support *ex ante* recovery financing mechanisms.

Over the past year, the Bank has been active in supporting countries affected by natural disasters, including those countries affected by the Asian tsunami and the South Asian earthquake.

In the aftermath of the Asian tsunami, the Bank, in collaboration with the Asian Development Bank, the Japan Bank for International Cooperation and the United Nations, helped to prepare assessments of damage and reconstruction needs and provide substantial analytic and advisory support for preparation of reconstruction and recovery programs. In addition, the Bank provided emergency support of US$14 million to the Maldives, US$150 million to Sri Lanka and US$528.5 million to India.

Likewise, in the aftermath of the South Asian earthquake that devastated parts of Pakistan, the Bank helped to prepare assessments of damage and reconstruction needs in cooperation with the Asian Development Bank and the United Nations. The Bank has pledged to provide Pakistan with US$1 billion in support to assist with earthquake recovery and reconstruction.

Stronger Focus on Country Ownership

The Bank continues to base its operations on the principles of country ownership. "Homegrown" Poverty Reduction Strategy Papers (PRSPs)[5] are being developed by an increasing number of poor countries as the driver of their national development plans and poverty reduction policies. PRSPs are increasingly becoming the focus of donor coordination, with the Bank's Country Assistance Strategies based on the country's own PRS framework.

Currently, 49 countries have prepared national poverty reduction strategies. Just over half of these are in Sub-Saharan Africa, and a similar proportion are heavily indebted poor countries.

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[5] PRSPs were originally conceived as a comprehensive policy mechanism to link heavily indebted poor country debt relief more closely with poverty reduction initiatives. They are rapidly evolving into the primary statement of the development strategy of the world's poorest countries.

PRSPs are a continuous and evolving process, and many developing country governments have relied on extensive Bank support in this initial stage of design and implementation.

In FY 2005, the World Bank and IMF undertook a comprehensive review of the PRSP process. Findings of this review call for attention in two areas to enhance the effectiveness of the PRS approach. First, to reinforce mutual accountability for development results, the PRS approach needs to support a balance in accountabilities between governments (to their constituents for improved policies, governance and development results) and donors (to provide more and better aid in ways that support rather than detract from domestic accountability). Second, the PRS approach needs to provide a platform for scaling up aid and demonstrating tangible results at the country level.

Conditionality Review

In FY 2005, the Bank undertook a comprehensive review of the policy and practice of conditionality in World Bank development policy lending. This stock taking was of critical importance in the Bank's effort to scale up its contributions to the achievement of the MDGs, as well as its commitment to harmonize approaches with partners.

The survey of clients and stakeholder consultations provided useful insights into areas of strength (economic management, human development, financial and private sector development) and areas of weakness (rule of law and rural development). The external consultations indicated that most of the Bank's policy operations are well aligned to recipients' medium- and long-term strategies, and have a positive impact on the countries' development. However, several areas requiring further attention were identified. These include the Bank's investment/business climate work and its impact on poverty reduction and environmental sustainability. The consultations also underscored the need to improve strategic communications and transparency in order to enhance public understanding of the Bank's role.

Trends in World Bank Conditionality

Policy-based conditionality linking the release of funds to the implementation of a desired action or policy is a central element in the aid relationship between international financial institutions and recipient countries. The Bank increasingly made use of such conditionality with the introduction of policy-based lending in the 1980s.

The Bank conditions disbursements on positive assessments in three areas: critical program conditions, adequacy of the macroeconomic framework and satisfactory program implementation. There are conditions and benchmarks in these three areas. Conditions are policy actions that are deemed critical for achieving the intended outcomes of the program and that are required in the legal agreement in order to disburse a loan, credit or grant. Benchmarks are essentially milestones that can be either actions or outcomes expected to be achieved over the period of the program. Benchmarks, used more in the context of IDA programs, are not legal conditions for disbursements of Bank loans or grants and cannot hold up Bank disbursements if not carried out. Typically, conditions focus on policy design, decision, implementation, outcomes and the macroeconomic policy framework.

The use of conditions in policy-based lending has declined over the past decade from 33 conditions on average in FY 1995 loans to 12 conditions on average in FY 2005 loans. The use of benchmarks increased from 14 on average in FY 1995 to 23 in FY 2005. As well, there has been a shift in the focus of conditionality from short-term economic adjustment (including privatization) to medium-term public governance and social sector reforms.

Low-Income Countries Under Stress

More than one-third of the Bank's borrowers are affected by conflict. The World Bank has taken a leading role in helping these countries to strengthen their capacity to use international assistance effectively to meet immediate needs, rebuild essential services and provide security. The Bank increasingly uses tools sensitive to conflict situations in its operational work, with 15 countries using conflict analysis frameworks and completing post-conflict needs assessments and recovery plans. The poorest conflict-affected countries are supported through the Low-Income Countries Under Stress (LICUS) Initiative. The LICUS Initiative is the World Bank's response to improving development aid effectiveness in fragile states.

Work continued this year on increasing the effectiveness of aid, with the Bank providing oversight of progress in the 25 fragile states. To improve links between security and development, the Bank and the United Nations Development Group developed the Transitional Results Matrix, a planning tool that helps countries prioritize and enhance the coherence of international support across the economic, development, humanitarian, political and security arenas.

In FY 2005, the Bank implemented several institutional reforms to improve its response in LICUS. The Country Policy and Institutional Assessment (CPIA) system was amended to recognize performance improvements in these countries. Also, since its inception in 2003, the LICUS Trust Fund has committed $23.8 million to support the re-engagement of the most fragile countries in non-accrual status with the Bank. In January 2006, the Bank presented a LICUS update paper showing that renewed international attention, along with increased institutional efforts within the Bank, is starting to show signs of impact on the ground. CPIA ratings have improved more strongly in LICUS than in other countries, and the percentage of the Bank's commitments and projects at risk has declined. However, challenges remain to (1) strengthen country strategies and operational engagement; (2) share best practices between regions and country teams with a focus on effectively linking Bank activities to peace-building and state-building goals; (3) strengthen international partnerships; and (4) strengthen organizational support and staffing systems to ensure that new approaches and partnerships can be implemented.

Middle-Income Countries

The World Bank has a key role to play in the development of middle-income countries (MICs), home to 70 per cent of the world's poor. In FY 2005, Bank lending to MICs declined to roughly US$13 billion. This marks the continuation of a downward trend that has resulted in a more than a 25-per-cent decrease in MIC lending over the past decade. This decline in demand for IBRD financing is a measure of success in the development process. However, there is concern that overly complex Bank procedures may have created an incentive for some countries to explore other sources of financing.

To support the development efforts of MICs, the Bank began implementing an action plan in FY 2005 designed to strengthen the ability of its staff to respond to these countries' borrowing needs. Initiatives include piloting the use of countries' own environmental and social safeguards and fiduciary systems, where applicable; streamlining policy conditionality; and making greater use of the flexibility of Country Assistance Strategies (CASs) to customize support to country circumstances, respond quickly to emerging opportunities, and realign investment lending instruments and disbursement mechanisms with the evolving needs of clients.

Monitoring and Evaluation

The Bank continues to adjust its system of project monitoring and evaluation. At Development Committee and other international meetings, Ministers have highlighted the importance of an enhanced focus on results in helping both developing countries and donors design and implement poverty reduction strategies. In response, Bank management has embarked on a process of developing a more comprehensive approach to measuring and monitoring development results. The Bank's approach is focused both on tying its own performance benchmarks more closely with the development priorities of individual Poverty Reduction Strategy Papers and on increasing Bank support for statistical and public sector institutional capacity within

developing countries. By the end of 2003, the Bank had launched a number of "results-based" CAS pilots. An assessment of the lessons learned from these pilots is now underway, and the results will inform how to mainstream results into all future CASs. Going forward, the Bank will monitor the poorest countries' progress towards reaching the Millennium Development Goals and its own contribution to this progress.

Enhancing Development Effectiveness Through Evaluation

The Independent Evaluation Group

The Independent Evaluation Group (IEG), formerly the Operations Evaluation Department, is an independent unit within the World Bank; it reports directly to the Bank's Board of Executive Directors. IEG assesses what works and what does not; how a borrower plans to run and maintain a project; and the lasting contribution of the Bank to a country's overall development. The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank's work and to provide accountability in the achievement of its objectives. It also improves Bank work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.

Quality Assurance Group

The Quality Assurance Group (QAG) is an internal unit reporting to Bank management. QAG's primary objective is to promote excellence in Bank performance by increasing accountability and enhancing learning. QAG's strategy for achieving its objective involves two complementary approaches: first, providing staff and managers with credible, real-time feedback on operational performance and identifying, in a transparent fashion, systemic issues affecting operational performance; second, identifying and highlighting skills and resources needed by the operational staff for high-quality work and using lessons learned to support staff training.

Assessing Poverty

To ensure that poverty reduction remains at the heart of the institution's operations, the Bank's Poverty Reduction and Economic Management Network (PREM) undertakes country-specific poverty assessments and advises Bank country teams on the poverty reduction impacts of policies, programs and individual projects. The quality of poverty data, however, is uneven, and PREM continues to work to improve the consistency of its assessments.

The World Bank's Response to Fighting Disease

HIV/AIDS

HIV/AIDS is not just a public health issue; it is a development crisis. Of the approximately 40 million people around the globe who are living with HIV/AIDS, 95 per cent are in developing countries. The high infection rates in developing countries are killing or incapacitating many of the most productive individuals and threaten economic and social stability. AIDS is now the leading cause of death in Sub-Saharan Africa and among males in the Caribbean. In the hardest-hit countries, HIV/AIDS threatens to reverse the development gains achieved over the past 30 years.

Most of the Bank's HIV/AIDS programming is delivered through IDA, which has mainstreamed HIV/AIDS into its work. In all, the Bank has committed more than $2.5 billion to fighting HIV/AIDS in 67 countries. The Bank is heavily involved in international efforts to combat the disease. The Bank is one of eight co-sponsors of UNAIDS (which spearheads the UN's response to the crisis). The Bank is also fostering private-public partnerships designed to accelerate the development of an HIV/AIDS vaccine for use in developing countries. The Bank is an active partner in the Global Fund to Fight AIDS, Tuberculosis and Malaria that was launched at the Group of Eight (G8) Summit in Genoa. The Bank, along with UNAIDS and the World Health Organization, holds ex officio (non-voting) seats on the Board of the Global Fund. The Bank is also the trustee of the Global Fund, with responsibility for the collection, investment and management of funds, disbursement of funds to countries and programs, and financial reporting. In April 2004, the Bank entered into a partnership with the Global Fund, UNICEF and the Clinton Foundation to make it possible for developing countries to purchase high-quality AIDS medicines at low prices.

Malaria

Every year, more than 500 million people contract malaria, and 1.1 million die from the disease. Recognizing that progress in fighting malaria has been too slow and uneven, the World Bank announced a new Booster Program for Malaria Control in April 2005. The program will make funding available to countries to enhance programs to combat the disease. A commitment of US$500 million to US$1 billion is planned over the next five years.

Avian and Human Influenza

In January 2006, the World Bank co-sponsored the International Pledging Conference on Avian and Human Influenza in Beijing, which successfully mobilized pledges of US$1.9 billion against this potential pandemic. The Bank pledged US$500 million in loans, grants and credits that will be used to support country-specific initiatives and possibly leverage additional funds from other countries.

IDA14 Replenishment

Negotiations on the volume of financing and operational priorities for the 14th replenishment of IDA (IDA14) began in February 2004. In early 2005, 40 donor governments, with strong participation from borrower representatives, concluded negotiations on IDA14. The IDA14 period runs from July 2005 to June 2008. The IDA Deputies' Report, which serves as the IDA14 policy framework, was approved by Bank Governors in April 2005 and is available on the Bank's website.

Donors substantially increased funding for IDA to ensure its strong participation in the international effort to scale up poverty reduction efforts to reach the Millennium Development Goals. Total IDA14 donor contributions reached SDR 12,062.64 million, and Canada has maintained its 3.75-per-cent donor share with a commitment of SDR 534.4 million (C$1,043.25 million) during the IDA14 period.

IDA's operational priorities include:

- Significantly increase grant resources available to recipients from 18 to 21 per cent of IDA13 to 30 per cent of IDA14.
- Adopt a grant allocation framework based on debt sustainability and Country Policy and Institutional Assessment ratings to ensure that additional resources are effectively targeted within a performance-based allocation framework.
- Link its operations more closely to country-owned poverty reduction strategies.
- Invest in people, especially through education, health and basic infrastructure, to promote growth through private sector development, and to monitor measurable results.
- Maintain the objective of having Africa account for half of IDA allocations.
- Recognize the debt vulnerability of many low-income countries, in IDA14 donors agreed to link the provision of grants to debt distress.
- Be more selective in its operations and to work closely with other development partners, on the basis of comparative advantage.
- Recognize the importance of IDA's performance-based allocation mechanism, and especially the high weight it assigns to governance.
- Show greater flexibility with respect to allocations to post-conflict countries without policy track records and to vulnerable countries such as Haiti.

Other Priority Issues

Canada's positions are based on our international development goals, foreign policy priorities and strong interest in maintaining the financial integrity of the World Bank.

Poverty Reduction and Human Development

Canada has long been a key player in international efforts to assist the poorest countries and strongly supports poverty reduction as the overarching objective of the World Bank. As such, Canada endorses the Poverty Reduction Strategy Paper process, under which developing country governments develop and implement broad-based poverty reduction strategies in partnership with the donor community. The Bank has increasingly recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance, the strengthening of public expenditure management and the monitoring of non-productive expenditures (especially military), external debt and environmental sustainability are just a few of the factors that need to be considered in designing strategies to help improve the living standards of the poor. In the case of small states, the Bank has to take into account additional factors of economic and physical vulnerability and limited capacity.

Canada strongly supports the Bank's efforts to increase the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth and reducing poverty. At the same time, adequate attention to social issues must be an essential part of macroeconomic stabilization and sustainable development goals.

Infrastructure Action Plan

In July 2003, the Bank's Executive Board approved an Infrastructure Action Plan to revitalize the Bank's work in this area. Infrastructure is about providing basic services that people need for everyday life—water, sanitation, energy, roads and other aspects of transport, and access to modern information communications technology. The overarching premise of the action plan is to ensure efficient, affordable and sustainable delivery of infrastructure services by leveraging funds from the entire spectrum of public and private sources, supported by IBRD, IDA, IFC and MIGA products. Significant progress was made in FY 2005 toward implementing the Infrastructure Action Plan. Infrastructure lending grew from \$5.4 billion in FY 2003 to \$6.5 billion in FY 2004 to \$7.3 billion in FY 2005—about a third of total lending commitments. Transportation projects received the largest share of commitments, followed by energy and mining, water supply and sanitation and information and communications technologies. The Bank is making substantial investments in new areas. Together with the IFC, it is exploring opportunities for engaging with clients more effectively at the subnational level through the Municipal Fund pilot program. It is also partnering with the IMF to find ways to address the lack of adequate fiscal resources for infrastructure investment once ongoing expenditure commitments in country budgets are met. The Bank will continue to engage other development partners, including the private sector, in this work.

Poverty Reduction and Sub-Saharan Africa

Canada is a leading advocate for poverty reduction and development in Africa, home to some of the poorest countries in the world. In 2005, Canada channelled much of its support through several initiatives:

- **IDA14 negotiations:** Canada and key donors successfully pressed management to again earmark half of IDA resources to support African development under IDA14, as was done under IDA12 and IDA13. Recognizing the fragile debt sustainability situation of many poor countries on the continent, most of which are benefiting under the Heavily Indebted Poor Countries Initiative, Canada supported the provision of grant financing to countries experiencing debt distress.
- **Africa Action Plan:** In September 2005, the World Bank developed its Africa Action Plan, which addresses the G8 Leaders' call at the Gleneagles Summit for better international coordination and increased assistance to African countries in order for them to meet the Millennium Development Goals by 2015. Notably, the Africa Action Plan aims to support country-led efforts to achieve results, advance a shared growth agenda, build more capable states, and encourage partnerships for Africa at the country, regional and global levels.
- **Canadian initiatives:** In its 2005 budget, Canada announced that it would double aid levels to Africa between 2003–04 and 2008–09 from $1.05 billion to $2.1 billion. Spending priorities will include health initiatives to prevent and treat diseases such as HIV/AIDS, malaria and polio, and provide debt relief for heavily indebted African countries.

Canada's Voting Record

World Bank Executive Board decisions are traditionally taken on a consensus basis, without resorting to a formal vote. On occasion, however, individual Executive Directors have been unable to join the Board consensus. In 2005, the Canadian Executive Director opposed an IFC investment in Tata Iron and Steel Company Limited, in light of concerns about global overcapacity in the steel market. He also abstained from voting on the IFC's investment in Embraer-Empresa Brasileira de Aeronautica S.A. based on lack of evidence of additionality.

Education

Canada considers education to be a critical factor in development and supports recent efforts by the Bank to increase support to this sector as part of the global Education for All (EFA) framework. Commitments to education in FY 2005 amounted to US$1.95 billion. The Bank also provides important non-lending support for education through its analytic and advisory work. Globally, the EFA Fast-Track Initiative (FTI)—developed by the Bank in cooperation with a special G8 Education Task Force in 2002—has become the key vehicle to drive donor cooperation and progress on the EFA and Millenium Development Goal (MDG) of universal completion of primary school. To date, through our bilateral programs, Canada has pledged C$135 million from 2003 to 2008 for FTI proposals from Honduras, Mozambique and Tanzania, over and above current commitments. In addition, in 2005 the Canadian International Development Agency made a new commitment of $16 million in Nicaragua and also supported education programming in other FTI countries such as Burkina Faso, Niger and Vietnam.

Looking ahead, the World Bank's work will be guided by the following three principles:

- Increases in education supply must go hand in hand with improvements in quality. The World Bank is reviewing its own education strategy to ensure that supply and quality are given equal importance.
- EFA objectives and financing requirements must be integrated within a country's broader education sector strategy and budget frameworks.
- The FTI should be scaled up as a demonstrated effective instrument.

On funding, aid resources for basic education in low-income countries have not been increasing fast enough. The Bank estimates that only about 3 per cent of Official Development Assistance (ODA) goes to basic education within low-income countries—of the US$61.8 billion in ODA in 2002, only US$6.5 billion went for education, of which about US$2 billion was for basic education in low-income countries. Currently, there are 18 countries with appraised and endorsed education country plans as part of the FTI. It is expected that another 28 countries could become eligible for the FTI between 2006 and 2008 (including 14 Sub-Saharan African countries), each having developed sound plans for scaled-up investment in basic education consistent with the agreed-upon FTI framework and criteria. Estimates of external donor financing for all developing countries to achieve universal primary education by 2015 range from between US$5.6 billion and US$10 billion annually. At present, donor assistance for basic education amounts to approximately US$2 billion per year, of which Canada contributes roughly 7 per cent.

Development Effectiveness

Ensuring the effectiveness of the Bank's operations has long been a key Canadian objective. This entails more than just reducing costs and saving money. Effectiveness requires selectivity, clear priority setting, coordination and harmonization among development partners, responsiveness to client country

needs and efficient service delivery. The Bank needs to operate in those areas where its assistance can be productively used and where it has a clear comparative advantage.

The Bank is exercising greater selectivity by focusing on reforming states and good performers. In the case of IDA credits, allocations are based on performance criteria. In order to monitor country performances in a meaningful manner, the Bank is focusing on incorporating outcome indicators on poverty and the MDG to measure real results, including such indicators as child malnutrition and child and maternal mortality.

The Bank continues to strengthen its efforts to improve development effectiveness through a renewed emphasis on the quality of its project portfolio. More vigilance is now exercised at the project preparation and supervision stages, and this has led to an improvement in the number of projects that are meeting their development objectives. For FY 2004, the Operations Evaluation Department estimated that 82 per cent of Bank projects had satisfactory ratings in terms of meeting their development objectives. This represents a steady increase since 1997, when only 73 per cent of projects were rated satisfactory. Nonetheless, in a report on the Bank's effectiveness released in October 2005, the new Independent Evaluation Group suggested that approximately one-third of Bank country programs were rated unsatisfactory. Countries expressed a desire for the Bank to provide "less generic knowledge and more help in finding solutions to their specific problems." At the same time, the Bank's strategy for global programs was described as "poorly defined." The new Strategy for Global Programs and Partnerships (GPP) adopted in May 2005, in conjunction with the new allocation framework for the Development Grant Facility, provides a basis for the Bank to enhance the linkage of GPPs to its country strategies to increase the impact of its programs. At the IFC, progress continues to be made on tracking and measuring development effectiveness of IFC investments and technical assistance.

Coordination and harmonization of donor programs is another critical element of effective development assistance. In February 2003 in Rome, the World Bank, together with other multilateral development banks and the Development Assistance Committee of the Organisation for Economic Co-operation and Development, co-sponsored an international High-Level Forum on Harmonization, which resulted in the Rome Declaration on Harmonization. The Declaration set out an ambitious program of activities to ensure that harmonization efforts are adapted to the country context and that donor assistance is aligned with the recipient's priorities. The Declaration also promoted country-led efforts to streamline donor procedures and practices, and urged the adoption of policies, procedures and practices to ease harmonization. A High-Level Forum on Aid Effectiveness followed these efforts in March 2005 in Paris, which led to the Paris Declaration on Aid Effectiveness. Participants reconfirmed their commitment to the global agenda on harmonization, alignment and results and agreed to provide more predictable

and multi-year commitments on aid flows. They also reached agreement on 12 indicators for monitoring reforms in aid delivery and management, and set targets for achieving these by 2010. These indicators include: having in place operational development strategies, reliable public financial management systems, aid flows aligned to national priorities, strengthened capacity through coordinated support, untied aid, common program-based approaches, joint missions to the field, joint country analytic work, results-oriented frameworks and mutual assessment reviews for all partners.

The World Bank is firmly committed to the donor harmonization efforts as a key institutional priority. The Bank sees itself as a participant, facilitator and leader in these efforts. The Bank is continuing a major internal reform and modernization of its operational policy framework, for which one key objective is better harmonization and alignment. During FY 2005, along with reviews on the Poverty Reduction Strategy Paper and Bank conditionality, the pilot phases of the results-based Country Assistance Strategy methodology were completed, and a stock taking paper was reviewed by the Board. Efforts to strengthen country-level statistical capacity continued, and the IDA14 Results Measurement System was developed. At the global level, the Bank coordinated the preparation of a sourcebook on managing for development results, using Canadian International Development Agency (CIDA) funds, with the Joint Venture on Managing for Development Results. With the goal of further improving the effectiveness of the institution, the Bank has also enhanced the voice of developing countries at the Board by providing additional resources to the two African Executive Directors' Offices, has established a mid-career secondment program for officials from developing countries, and is decentralizing decision making to the field.

Gender Issues

Canada actively promotes gender issues as a priority for World Bank operations. World Bank lending in almost all sectors includes activities that specifically benefit women and girls. Following a review of its gender strategy, management committed to integrate gender issues into Bank Country Assistance Strategies and to work with developing countries and external partners to identify appropriate strategies to promote gender equality. In 2005, Bank staff analyzed the effects of gender-based barriers to development, and will use the knowledge gained in this exercise to help countries address gender issues. The Bank also held its first workshop on gender-based violence, and monitored and evaluated its progress in promoting gender equality. To further knowledge exchange with its development partners, the Bank provides a number of statistical indicators on gender on its website.

While the gender strategy and the bank's implementation plan are well formulated, CIDA continues to monitor implementation and mainstreaming of its objectives throughout the Bank's operations, as this has been inconsistent to date.

Private Sector Development

The private sector plays an important role in virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. Canada has maintained that the Bank Group's fundamental priority for private sector development is to create an enabling environment for investment and sound regulatory frameworks for the private sector to develop in a sustainable fashion. The Bank's strategy in private sector development relates to two broad themes: extending the reach of markets and improving the delivery of basic services. The key elements of the strategy include fostering a sound investment climate; providing direct support for private firms; supporting private participation in infrastructure; increasing the role of the private sector in assisting public sector efforts to achieve universal and affordable access to social services; and creating a new approach to more effectively target subsidies to the poor to improve service delivery. Canada has encouraged this increasingly coordinated approach to private sector development.

Commitments for 109 new projects with private sector development components in FY 2005 amounted to more than US$3.8 billion. With 23 country investment climate assessments completed this year, country assessments are now being used to guide reforms or support Bank projects in over 40 countries.

Now in its second year, the Doing Business project provides objective, quantifiable indicators of business regulation in 145 countries. This year's report, *Doing Business in 2005*, focuses on removing obstacles to growth. Like the inaugural report, the new report presents indicators in five main areas: starting a business, hiring and firing workers, enforcing contracts, getting credit and closing a business. It also adds another two sets: registering property and protecting investors. The indicators are used to analyze economic and social outcomes such as productivity, investment, corruption, unemployment and poverty, and identify what reforms have worked.

The report draws on surveys of over 30,000 firms in 53 developing countries, the Bank's Doing Business database, country case studies and other new research, and usefully highlights opportunities for governments to improve their investment climates by expanding the opportunities for firms to invest productively and create jobs. Canada ranked fourth on ease of doing business after New Zealand, Singapore and United States.

World Development Report 2006: Equity and Development

The World Bank's annual *World Development Report* (WDR), prepared in consultation with stakeholders, provides in-depth analysis of a specific aspect of development. Past reports have considered such topics as the role of the state, transition economies, labour, infrastructure, health, the environment, poverty and investment climates. The reports are the Bank's best-known contribution to thinking about development.

The 2006 WDR concludes that inequality of opportunity, both within and among nations, results in wasted human potential and often weakens prospects for overall prosperity and economic growth. To correct this situation and reduce poverty more effectively, the WDR recommends ensuring more equitable access by the poor to health care, education, jobs, capital, and secure land rights, among others. It also calls for increasing equality of access to political freedoms and political power, breaking down stereotyping and discrimination, and improving access by the poor to justice systems and infrastructure. To level the playing field among countries, and thereby reduce global inequities that hurt the poor in developing countries, the report calls for the removal of trade barriers in rich countries, flexibility to allow greater in-migration of lower-skilled people from developing countries, and increased—and more effective—development assistance.

The 2006 WDR is available online at www.worldbank.org.

An important example of the private sector's role in development is the growing impact of microfinance. By providing financial services to those excluded from formal financial systems, such as small loans, deposit services, money transfers and insurance, microfinance institutions have been successful in improving the living conditions of the poor—particularly women—in developed and developing countries. Microfinance has proven to be an effective and powerful tool for poverty reduction, enabling the poor to take advantage of economic opportunities, as well as build assets, stabilize consumption, deposit money and protect themselves against risk. The Consultative Group to Assist the Poorest (CGAP) plays a critical role in helping to develop sustainable microfinance sectors. CGAP, a consortium of donors that includes the World Bank, the Canadian International Development Agency and 20 other multilateral and bilateral agencies, international financial institutions, and private organizations, was established in 1995 to help expand the poor's access to a range of reliable financial services. In FY 2005, CGAP committed US$9.5 million in new grants and initiatives to expand microfinance operations in the world's poorest countries. Canada strongly supports CGAP's efforts to expand the poor's access to reliable financial services and provides C$500,000 in annual contributions.

In 2005, CGAP continued to promote the importance of and best practices in microfinance through several new initiatives:

- It developed country-level savings assessment tools to provide donors, governments, international networks and technical service providers with a systematic methodology for analyzing opportunities and constraints to savings mobilization at the country level. To date, country-level assessments have been completed in Benin, Bosnia, Mexico and the Philippines—all meant to road-test the methodology before publication of the tool in 2006.
- CGAP awarded the second Annual CGAP Financial Transparency Award, working with world-class auditing firms, to recognize microfinance providers that comply with international disclosure guidelines, including the International Financial Reporting Standards.
- It sponsored the Pro-Poor Innovation Challenge, which awards funds to smaller institutions that demonstrate effective models and methodologies for deepening poverty outreach and impact, while working toward sustainability.
- Through its Retail Advisory Service, CGAP has begun to work with several commercial banks that intend to downsize their services to include low-income clients.
- CGAP launched the Technology Resource Center, an online portal to help microfinance institutions select the best information system, learn how to implement it, share experience on the use of new technologies such as automated teller machines, PDAs and credit scoring, and find funding for their technology or innovation.

Good Governance and Anti-Corruption

Canada is an advocate of strong Bank support for improved public and corporate sector governance. Over the past decade, governance has been mainstreamed into the Bank's adjustment and investment lending, and more recently into its country analytic work. In FY 2005, Bank lending for governance totalled US$2.6 billion, or 12 per cent of new lending.

Promoting Good Governance

The Bank's governance strategy, Reforming Public Institutions and Strengthening Governance, stresses the need for the Bank to strengthen its tools for evaluating the quality of a country's institutions and for assessing a country's readiness to initiate specific governance reforms. The Bank routinely produces a set of core diagnostic reports that include poverty assessments, country economic memoranda, public expenditure reviews, country procurement assessment reviews and country financial accountability assessments. The World Bank Institute (WBI) helps policy makers from client countries develop the knowledge, skills and abilities that will enable them to improve governance and stem corruption. The WBI and the Bank's Development Economics Group produce the worldwide Governance Indicators, which assess more than 200 countries and territories on key dimensions of governance.

In its efforts to promote better governance practices, the WBI has established close working relations with the Parliamentary Centre of Canada and with international organizations. The IMF and World Bank also continue to support the work of the Toronto International Leadership Centre for Financial Sector Supervision to build capacity in the areas of financial sector supervision.

Promoting Good Governance

Chad

In early 2006, the World Bank suspended all new lending and disbursements, worth about US$125 million, to the Government of Chad. This action followed passage of amendments to the country's Petroleum Revenue Management Law by the Chadian National Assembly. These changes substantially weakened programs to improve the lives of poor people, which the World Bank has been supporting, and violated the Government's loan agreement with the Bank.

The World Bank had offered to assist the Government of Chad to address its financial difficulties by analyzing how the country's public finances have been managed. It had also proposed a review of how the Petroleum Revenue Management Law has been implemented to identify which, if any, amendments to the law might be warranted. In February 2006 the World Bank and the Government of Chad entered into a dialogue on the best ways to address its current financial crisis while protecting poverty reduction programs.

Kenya

In January 2006, the Bank approved a US$25-million Institutional Reform and Capacity Building Project to support the Government of Kenya's fight against corruption. Five other operations, totalling US$260.5 million, are scheduled for Board consideration by the end of June 2006. Several of these are pending completion of a review by the Bank's Department of Institutional Integrity.

Anti-Corruption

The Bank is a leader among international institutions in resources committed to fighting fraud and corruption in its own operations and in client countries. Since 1997, anti-corruption activities have been integral components of the Bank's public sector management portfolio. Annual anti-corruption action plans have helped to increasingly mainstream anti-corruption in the Bank's internal procedures, as well as country strategies, country dialogue and assistance. Between fiscal years 1997 and 2000, the Bank had undertaken more than 600 specific anti-corruption programs and governance initiatives in 95 borrower countries. In these years, the Bank debarred over 300 firms and individuals from receiving Bank contracts because of their involvement in corruption or the misuse of Bank funds and obtained 25 criminal convictions in multiple jurisdictions. At the start of 2006, 203 companies or individuals were ineligible from benefiting from contracts under World Bank-financed projects. In addition, the Bank issued 9 letters of reprimand to companies or individuals doing business under Bank-financed contracts.

Anti-Money Laundering

The Bank's program to fight money laundering and the financing of terrorism focuses on helping countries strengthen the integrity of their financial systems. In 2005, the Bank more than doubled its assistance in this area, providing training programs and long-term expert mentors for regulators, organizing global dialogues with public and private sectors, conducting assessments of country compliance with international best practices, and publishing reference guides and practical manuals.

Environmentally Sustainable Development

The Canadian Government, alongside Canadian civil society, has long advocated the need for the Bank to better integrate environmental considerations into its operations. Along with gender, this is an area that needs to be more strongly emphasized in Country Assistance Strategies and World Bank assessments of Poverty Reduction Strategy Papers. The Bank has estimated the economic costs of environmental degradation in many developing countries to be in the range of 4 to 8 per cent of GDP. Under its environmental strategy, the Bank is moving to improve its environmental safeguard system and to mainstream environmental policies and issues into its loan and policy dialogue work. The Bank also works closely with clients to help them introduce and implement their own environmental safeguard systems to help them manage their resources in a sustainable manner.

While the Bank is mainstreaming environmental considerations into the broad range of its operations, the number of direct environmental investments it supports varies from year to year. The share of overall Bank lending directed to environmental and natural resource management increased significantly to 11 per cent in FY 2005 from 6 per cent in FY 2004.

Together with the United Nations Development Programme and United Nations Environment Programme, the Bank is an implementing agency of the Global Environment Facility (GEF). Through the GEF, the Bank supports projects in four key areas: climate change, biodiversity conservation, phase-out of ozone-depleting substances and protection of international waters. Since the inception of the GEF, the World Bank Group has mobilized nearly US$2.8 billion in GEF funding associated with an additional US$13.9 billion in public and private funds to support action in key areas. In FY 2005, 32 new GEF projects were approved for US$255 million in GEF financing and additional Bank financing of US$565 million.

The Bank has been particularly active in the area of climate change. The total World Bank Group/GEF climate change portfolio includes 62 projects, for which $6.2 billion has been mobilized: $730 million from the GEF and the balance from the World Bank donors and private investors.

For the last 10 years, the Bank has been among the largest investors in alternative energy in developing countries, investing more than $6 billion since 1990 in energy efficiency and renewable energy projects and programs and mobilizing more than $10 billion for the same purposes from private and public sources. Fourteen per cent of the Bank's energy portfolio is in alternative energy compared to 4 per cent in 1990. The Bank is committed to increasing its lending for renewable energy technologies by 20 per cent per year over the next five years.

Over the past few years, the World Bank has expanded its carbon finance business. These activities include the Prototype Carbon Fund, Community Development Carbon Fund, BioCarbon Fund and Pan-European Carbon Fund.

In FY 2005, the Bank further expanded its carbon finance operations with the introduction of an Umbrella Carbon Finance Facility (UCF). The purpose of the UCF is to aggregate multiple sources of funding, including from the Bank's existing carbon funds, to purchase large volumes of carbon emissions from pre-identified projects on behalf of governments and private firms. In January 2006, two projects, both in China, were funded through the UCF.

Investment Framework for Clean Energy and Sustainable Development

On July 8, 2005, Leaders at the G8 Summit in Gleneagles released a communiqué recognizing the importance of climate change as an environmental and development issue. Leaders highlighted the need for multiple policies, technologies and tools to address global climate change issues, including further World Bank action and leadership.

Specifically, leaders called on the World Bank to create a new framework for clean energy and development by: further integrating climate change and development policies by creating a framework for investment in clean energy and sustainable development; increasing dialogue with borrower countries; integrating options for lowering greenhouse-gas-intensive growth into Country Assistance Strategies; developing local commercial financing capacity; and expanding and extending the Global Gas Flaring Reduction Partnership.

The World Bank responded by establishing working groups to coordinate efforts on enhancing country dialogue, technology, financial products and communications. The Bank coordinated meetings with experts, partners, large emitters, key developing countries and international financial institutions to work towards developing an investment framework, appropriate insurance schemes and lending strategies to support low-carbon energy, infrastructure development and activities that are expected to reduce the risk to the poor of climate change.

The Bank will be providing an update of its investment framework in April 2006.

The World Bank continues to strengthen its approach to ensuring sustainable development. Safeguard policies are a subset of World Bank operational policies that require that potentially adverse environmental and social impacts of Bank investment projects be identified, avoided or minimized, where feasible, and monitored. Bank management first articulated the concept of safeguard policies in 1997 to stress the importance of this specific set of operational policies for achieving its environmental and social objectives and enhancing the quality of its operations. In 2003, the implementation of safeguard policies was strengthenened. In addition, disclosure of safeguard documents has increased now that the application of the Policy on Disclosure of Information is fully mainstreamed. The higher number of projects subject to environmental scrutiny, and the larger number of documents disclosed, reflect the increased mainstreaming of environmental and social concerns in the Bank's lending portfolio.

Trade and Development

Canada recognizes that the capacity of small nations, emerging economies and other developing countries to participate effectively in the global trading system is an important component of a comprehensive approach to growth and poverty reduction. Canada has stressed the need to incorporate trade sector capacity building in Bank Country Assistance Strategies and nationally developed Poverty Reduction Strategy Papers, as well as encouraged the Bank's participation in the discussions related to Aid for Trade. Aid for Trade aims to provide additional assistance to developing countries to strengthen their trade-related capacity and to facilitate adjustment to trade reform.

The objectives of the Bank's work in the trade area cover three distinct but complementary areas:

- At the global level, promotion of change in the world trading system to support development, including activities to promote a pro-development Doha outcome.
- At the regional level, promotion of effective cooperation, through both analytic work and active support for cross-cutting issues such as standards and trade liberalization.
- At the national level, promotion of trade issues in country strategies, including targeted country analysis and technical support.

During the Hong Kong Ministerial Conference in December 2005, World Trade Organization members reaffirmed the decisions and declarations that were adopted at Doha and renewed their resolve to complete the Doha work program. To support the process, the World Bank continues to aid developing countries to increase their capacity to participate in world trade. Such assistance finances government trade reform programs, including income maintenance, worker retraining, investments in ports and roads, and reform of trade-related institutions. As Doha negotiations continue, the Bank will work with countries to quantify ways they might be affected individually and will help tailor reform programs to their needs.

In addition, the Bank is actively participating in shaping Aid for Trade related discussions. The enhanced Integrated Framework (IF) for Trade-Related Technical Assistance, where the World Bank plays the role of lead institution, is currently recognized as a central element of an Aid for Trade initiative. The IF assists least developed countries to mainstream trade in national poverty reduction strategies and to secure the delivery of coordinated and targeted trade-related technical assistance and capacity building. Canada is a strong supporter of the IF and, in addition to providing policy advice, contributed $3 million to the IF Trust Fund. Canada is Chair of the Geneva-based Task Force on the Enhanced IF.

Transparency and Accountability

Recognizing that transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations and that the "demonstration effect" of the Bank's own policies is important for developing country governments, Canada has been a major proponent of increased openness at the Bank.

Canada and other donors have also pushed the Bank and borrowing countries to improve consultations with local people—civil society organizations (CSOs) and non-governmental organizations (NGOs)—in borrowing countries, not only in the design and implementation of projects, but also in the preparation of key policy documents, such as Country Assistance Strategies. The Bank has responded to concerns from shareholders by making public a growing number of documents. Following extensive Bank consultations with governments, civil society, the private sector and the media, the Bank's revised disclosure policy came into effect in January 2002.

In FY 2005, substantial headway was made in the Bank's transparency and disclosure agenda. In March 2005, the Executive Board approved a number of revisions to the Bank's disclosure policy that will extend and simplify information disclosure. These changes included adopting a unified Country Assistance Strategy disclosure policy for the IBRD and IDA; disclosing Board minutes, the staff manual, the budget paper and the staff compensation paper; and simplifying the disclosure clearance procedures.

Further progress was made during the IDA14 replenishment meetings in 2004 and early 2005. Borrower participation and publication of IDA14 documents continued. In September 2004, the World Bank agreed to the publication of individual country ratings under the annual IDA Country Policy and Institutional Assessment (CPIA) exercise to assess economic, social and governance indicators of IDA countries, starting in IDA14. This will provide client countries and other stakeholders with transparent information about CPIA methodology, findings and ratings for all IDA countries, which should enhance the quality and robustness of the ratings, as well as public confidence in IDA's performance assessment.

Transparency also requires better consultation with those affected by projects that the Bank supports. The Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the Inspection Panel investigate whether the Bank has abided by its policies and procedures. Canada has been one of the major supporters of the work of the Inspection Panel. In FY 2005, the Panel received three new requests for inspection involving projects in Honduras (Land Administration Project), Democratic Republic of Congo (Transitional Support for Economic Recovery Credit and Emergency Economic and Social Reunification Support Project) and Cambodia (Forest Concession Management and Control Pilot Project). Panel recommendations, reports and management recommendations can all be accessed at www.worldbank.org/inspectionpanel.

The Bank engages with civil society across a broad range of activities, including providing input for poverty assessments, national environmental action plans and other key Bank analytic tools. Particular emphasis has been placed on expanding partnerships with outside groups as more Bank operations are framed in the context of Poverty Reduction Strategy Papers, which embody participatory approaches at the macro level. CSO and NGO representatives from developing countries are now consulted regularly in the preparation of Bank Country Assistance Strategies. Information on the participation of CSOs and NGOs is now included in Bank project appraisal documents.

Within Canada, NGOs have participated in a regular series of government meetings and conferences on such issues as multilateral debt, the environment, safeguard policies, IDA and Africa. The Canadian Government has benefited greatly from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process, the views of Canadian NGOs have helped shape Canada's position in Bank project and policy discussions.

Business Plan and Administrative Budget for 2005

Recognizing that its corporate planning needs to be more closely aligned with efforts to achieve the Millennium Development Goals, the Bank has moved to a three-year budgetary and corporate-planning cycle. In June 2005, Executive Directors approved a net FY 2006 administrative budget of US$1,543 million, representing a nominal increase of 3.0 per cent over the approved budget for FY 2005. Given growing resource pressures and the need for the Bank to prioritize its operations, Executive Directors have recently increased their focus on the Bank's strategic planning and budgetary processes. Executive Directors' offices are now involved in the budget formulation process much earlier than they have been in the past. Going forward, the Bank will work with the Executive Directors to make the budget process more results-based and linked to well-defined key performance indicators within a multi-year framework. Aside from being consistent with its shareholders' desire to make the allocation of aid more results-based, the Bank anticipates that the new process will reduce the cost of preparing the budget itself and increase flexibility.

IBRD Financial Results in 2005

As a development institution, the IBRD does not maximize profit. Instead, it aims to earn a return on its assets that is sufficient to ensure its financial strength and sustain its development activities on an ongoing basis. The IBRD usually earns a net return on its assets of about 1 per cent per annum. In FY 2005, the IBRD managed to achieve a net return on assets of 2.79 per cent. The IBRD's main financial risk rests with the credit quality of its disbursed loan portfolio. At the end of FY 2005, the IBRD's equity-to-loans ratio, which is a summary measure of the institution's risk-bearing capacity, was 30.3, compared to 29.4 in FY 2004. These levels are considered sustainable.

Principal and charges totalling US$829 million from four IBRD borrowers[6] were recorded in "non-accrual" status at the end of FY 2005. No IBRD borrower entered into non-accrual status during the fiscal year. During FY 2005, the IBRD held provisions equivalent to about 3.2 per cent of its outstanding loan portfolio against anticipated losses. The Bank follows very conservative investment and hedging policies. In FY 2005, the IBRD raised US$13.0 billion in medium- and long-term debt on international capital markets to fund its operations, roughly the same as in FY 2004. All proceeds from new funding are initially invested in the IBRD's liquid asset portfolio until they are required for IBRD operations. The IBRD strategically repurchases, calls or prepays its debt to reduce the cost of borrowing and to reduce the exposure to refunding requirements in a particular year or to meet other operational requirements. In FY 2005, the IBRD repurchased or called US$5.1 billion of its outstanding borrowings. The IBRD enters into currency and interest rate swaps to convert US-dollar and non-US-dollar fixed-rate borrowings into US-dollar variable rate funding for its loans. The IBRD does not enter into derivatives for speculative purposes.

The process and procedures under which the IBRD manages its financial risk profile continue to evolve as its activities change in response to market, credit, product and other developments. The Executive Board and its Audit Committee periodically review trends in the IBRD's risk profiles and performance as well as any significant developments in its risk management policies and controls.

Allocation of FY 2005 Net Income

IBRD net income supports its development objectives. In July of each year, Executive Directors recommend to Governors specific allocations from the previous year's net income. IBRD "allocable" net income, after reserves, was US$662.5 million in FY 2005. In addition to providing funding for IDA operations and heavily indebted poor country (HIPC) debt reduction, net income allows the IBRD to respond to unforeseen humanitarian crises and to provide grants, from time to time, for other development causes.

[6] Côte d'Ivoire, Liberia, Seychelles and Zimbabwe.

Governors approved allocations from FY 2005 net income of US$400 million to IDA, US$210 million to the HIPC Trust Fund, and US$52.5 million to the Bank's surplus account. In FY 2005, Executive Directors approved the transfer of funds from the Bank's surplus account for disaster mitigation in Pakistan (US$5 million), Indonesia (US$25 million) and India (US$2.5 million).

How to Access Information at the World Bank

The World Bank's Public Information Centres, in Washington and in many of the Bank's regional offices, provide a wide range of Bank documents, including the following:

- Project information documents.
- Project appraisal documents.
- Country economic and sector work documents and sectoral policy papers.
- The Annual Report and the *World Development Report*.
- *Monthly Operational Summary* and *International Business Opportunities*.
- Environmental data sheets, assessments, analyses and action plans.
- *World Debt Tables* and *Global Development Finance*.
- Independent Evaluation Group précis.

These materials and a variety of World Bank and World Bank Institute special studies are available through the Bank's InfoShop located at:

701 18th Street N.W.
Washington, DC 20433, USA
Phone: (202) 458-4500
Fax: (202) 522-1500
E-mail address: pic@worldbank.org

Additional up-to-date information is also available on the Internet at www.worldbank.org/infoshop.

International Finance Corporation

The International Finance Corporation (IFC), created in 1956, complements the activities of the IBRD and IDA by providing financing on commercial terms for productive private sector enterprises that lack access to private capital markets. The institution is the largest multilateral source of loan and equity financing for the private sector in the developing world. The institution provides both loans and equity investments; loans represent 74 per cent of the IFC's disbursed portfolio. Through its co-financing arrangements, it leverages substantial private financing for development purposes. By investing alongside the IFC, investors gain valuable access to potential new customers, attain a high-yielding asset and, given the IFC's good relations with developing country governments, benefit from a degree of implicit political risk coverage. Canada maintains a 3.44-per-cent share of IFC capital. It has paid in US$81.3 million to the IFC's capital stock. Given the risks associated with its financial operations, all of the IFC's authorized capital is paid-in.

In FY 2005, the IFC signed investment commitments totalling US$6.5 billion for 236 projects in the developing world, compared to US$5.6 billion in FY 2004. Of this amount, US$1.1 billion was mobilized through loan syndications, compared to US$800 million in FY 2004. Of the US$5.4 billion of the IFC's own financing, US$4.5 billion was provided in the form of loans, US$216 million in the form of structured finance products (including guarantees), US$612 million as equity investments and quasi-equity investments, and US$4 million for risk management products. The IFC earned net income of US$2.0 billion in FY 2005, compared to US$993 million in FY 2004.

While the bulk of the IFC's financing is provided to middle-income countries, under its 2004 Strategic Directions paper, the institution is increasingly targeting frontier markets (countries such as those in Africa and frontier regions of larger emerging economies that are traditionally of limited interest to private investors). Moving forward, the IFC proposes significant growth (35 per cent by 2008) in these commitments.

Canada supports this stronger focus on frontier markets, while recognizing the difficulties posed by higher business costs and financial risks. It will also be important to monitor the proposed commitment growth to ensure the maintenance of project quality and the institution's long-term financial stability.

Technical Assistance and Advisory Services

The IFC also supports private sector development by providing technical assistance and advisory services that strengthen businesses. Technical assistance helps strengthen small and medium-sized enterprises, financial institutions, large companies, and the government entities involved in the private sector, in areas ranging from business capacity to management practices and strategies for growth. Much of its technical assistance work is conducted through facilities managed by the IFC, but funded through partnerships with donor governments and other multilateral institutions.

This is a fast-growing part of the IFC's business: in FY 2005, nearly one-third of the IFC's staff worked in 24 operations, while donor-funded operations accounted for about $108 million in expenditures, including more than $57 million in funding from the IFC.

Canada supports a number of these initiatives, including the Foreign Investment Advisory Service, which helps countries implement investment climate reforms, and the Strengthening Grassroots Business Initiative, which is a new approach to providing business development services and financing needed by small and medium-sized enterprises whose operations provide clear social benefits.

Global Trade Finance Program

Launched in FY 2005, the IFC's Global Trade Finance Program is aimed at supporting trade with emerging markets worldwide. It extends and complements the capacity of banks to deliver trade financing by providing risk coverage in difficult markets. The US$500-million program targets banks in Africa, Asia, Latin America and the Middle East.

The IFC will provide partial or full guarantees on the payment risk of banks in over 70 developing and transition countries, with the objective of increasing developing countries' share of global trade and promoting the "South-to-South" flow of goods and services. The guarantees will be used primarily to support short-term trade, but will accommodate longer terms of up to three years for capital good imports.

Updating the IFC's Policies and Guidelines

To ensure that its environmental and social standards remain relevant to a rapidly evolving marketplace, the IFC undertook an integrated review process to update its Safeguard Policies, Policy on Disclosure of Information, and Environmental Health and Safety (EHS) Guidelines.

The review involved a broad consultation process with stakeholders around the world, including governments, clients and partners, and representatives of civil society.

The outcome, accepted by the Board in February 2006, is a new policy framework. The new draft Disclosure Policy speaks to the IFC's commitments and responsibility to disclose information about itself as an institution. A new policy framework for managing environmental and social risks is being introduced. The existing Safeguard Policies have been recast as the IFC Sustainability Policy and the Performance Standards. The IFC Sustainability Policy outlines the IFC's roles and responsibilities in ensuring project performance in partnership with clients. The Performance Standards detail the requirements necessary for clients to receive and retain IFC support and clarify what is expected of clients. Public disclosure requirements for clients are found in the Performance Standards as an integral part of directives to ensure early and ongoing engagement with communities that are affected

by projects. The EHS Guidelines are technical reference documents that address the IFC's expectations regarding the industrial pollution management performance of its projects.

Canada was an active participant in the consultation process. In November 2005, Canadian Government officials from the Department of Finance Canada, the Canadian International Development Agency, Foreign Affairs Canada, Natural Resources Canada and Environment Canada met with representatives from the IFC to discuss the new policies. Canadian civil society also had the opportunity to provide feedback to the IFC, both directly through the IFC's own outreach process and through meetings with Canadian officials.

The International Finance Corporation's Social and Environmental Sustainability Performance Standards

The IFC applies the Performance Standards to manage social and environmental risks and impacts and to enhance development opportunities in its private sector financing in its member countries eligible for financing. The Performance Standards may also be applied by other financial institutions electing to apply them to projects in emerging markets. Together, the eight Performance Standards establish a principles-based approach, which requires clients to consider, consult on and address the impacts of their operations throughout the life of an investment by the IFC or other relevant institutions.

Performance Standard 1:	Social and Environmental Assessment and Management System.
Performance Standard 2:	Labour and Working Conditions.
Performance Standard 3:	Pollution Prevention and Abatement.
Performance Standard 4:	Community Health and Safety.
Performance Standard 5:	Land Acquisition and Involuntary Resettlement.
Performance Standard 6:	Conservation of Biodiversity and Sustainable Natural Resource Management.
Performance Standard 7:	Indigenous Peoples.
Performance Standard 8:	Cultural Heritage.

Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to encourage foreign investment in developing countries by providing viable investment insurance against non-commercial risks (e.g. expropriation, transfer restrictions, breach of contract, and war and civil disturbance), thereby improving or creating investment opportunities. MIGA's Canadian clients include Barrick Gold Corporation, Hydro-Québec International and The Bank of Nova Scotia.

In FY 2005, MIGA approved 62 guarantees totalling US$1.2 billion for 33 projects, of which 20 were in IDA-eligible countries. IDA-eligible countries also benefited in FY 2005 from 20 MIGA technical assistance efforts. During FY 2005, MIGA also increased its support for investors from developing countries, frontier markets and fragile states: it supported 4 South-South investments, 20 investments in frontier markets and 12 investments in conflict-affected countries.

Managing Canada's Interests

The Honourable James Michael Flaherty, Minister of Finance, is Canada's Governor to the World Bank and is responsible for the management of Canada's interests at the Bank. The Minister exercises his influence through exchanges of views at the Development Committee and annual meetings of the Board of Governors of the Bank, and through discussions with the President of the Bank. Within the Development Committee, Minister Flaherty represents the interests of Canada and all other members of the Canada/Ireland/Commonwealth Caribbean constituency.

Governors have delegated decision making for a wide variety of day-to-day operational, policy and administrative matters to the Bank's Executive Board. The Executive Board formally approves all loans, credits, projects and World Bank policies, discusses Country Assistance Strategies, and provides strategic advice to Bank management as appropriate. Of 24 Executive Directors on the Board, 12 are from developing and transition countries and 12 are from developed countries. Marcel Massé, who was elected Executive Director in September 2002 and re-elected in October 2004 by constituency Governors, represents Canada and the 12 other members of the constituency.

The Department of Finance Canada leads on World Bank issues and consults closely with the Canadian International Development Agency (CIDA) and Foreign Affairs Canada in formulating Canadian policies related to Bank issues. Robert Greenhill, the President of CIDA, is Canada's Alternate Governor for the World Bank.

Canadian Executive Director's Office

One of the key roles of the office is to provide advice and assistance to Canadian individuals and businesses on doing business with the Bank. Over the past two decades, the Executive Director's office has helped introduce roughly 1,000 Canadian businesses to opportunities through seminars and workshops held across the country and by organizing direct contacts in Washington. Beyond its formal work, the office provides a valuable bridge between the Bank and Canadian constituents—individuals, NGOs, federal and provincial agencies, associations, the academic community and parliamentarians, among others.

In addition to the Canadian Executive Director's office, the Canadian Embassy in Washington has established an Office of Liaison with International Financial Institutions that can advise Canadians on how to participate in Bank-financed projects. The office can be reached at (202) 682-7788.

Another point of contact for Canadian businesses is the Bank's Business web page at www.worldbank.org/opportunities. Canadian firms, organizations and institutions that are interested in pursuing opportunities created by Bank-financed projects should consult the Bank's website on a regular basis. Information on CIDA's cooperation with and support for World Bank and World Bank-supported programs can be found at www.worldbank.org/canada.

Members of the Executive Director's Office

Executive Director	Marcel Massé (Canada)
Alternate Executive Director	Gobind Ganga (Caribbean)
Senior Advisor	Terry Winsor (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Brendan Ryan (Ireland)
Senior Advisor	Stephen Free (Canada)
Advisor	Sharmila Prakash Khare (Canada)
Advisor	Timothy Antoine (Caribbean)
Executive Assistant	Monique Piette
Program Assistant	Monica Morris
Team Assistant	Danielle Pierre
Phone/fax	(202) 458-0082/(202) 477-4155
Address	MC-12-175, 1818 H Street N.W. Washington, DC 20433, USA mmasse@worldbank.org mpiette@worldbank.org

Canada's Financial Participation

IBRD

As a shareholder of the IBRD, Canada has a capital share of 2.85 per cent and a voting share of 2.78 per cent. A relatively small proportion of this capital is required to be "paid-in"—about 6 per cent overall. The remainder is "callable" in the unlikely event that the IBRD needs it from member countries. Callable capital represents a contingent liability for shareholders. The IBRD leverages paid-in capital to raise financing in international capital markets for its lending program. The IBRD's capital adequacy is regularly reviewed and its capital is replenished through occasional general capital increases. The last general capital increase was in 1988.

Canada's Total IBRD Subscriptions and Contributions Committed

(in millions of US dollars)	**Of which paid-in**	**Of which callable**
5,403.8	334.9	5,068.9

IDA

As IDA concessional financing does not generate a financial return, its operations are financed entirely from donor contributions, loan fees and repayments of principal on its outstanding loans, as well as allocations from IBRD net income. To meet Canada's $1,043.25-million obligation under IDA14, the Government will issue demand notes in fiscal years 2006–07, 2007–08 and 2008–09, each valued at $347.75 million.[7]

Canada's Contribution to IDA14 (July 2005–June 2008)

(in millions of Canadian dollars)	**Canada's IDA14 donor share** (per cent)	**Canada's IDA14 voting share** (per cent)
1,043.25	3.75	2.96

Canada's Financial Participation in the IFC

Total	**Subscriptions** (% of total)	**Voting power** (% of total)
US$81.3 million	3.44	3.39

Canada's Financial Participation in MIGA

Total	**Subscriptions** (% of total)	**Voting power** (% of total)
US$56.5 million	3.11	2.74
Of which paid-in US$10.7 million		
Of which callable US$45.8 million		

[7] Canada will pay its contribution to IDA14 in three equal installments and benefit from a discount of C$88.43 million for a net contribution of C$954.82 million. The discounted amount will require note issuances of C$318.27 million each fiscal year.

Canadian Procurement at the World Bank

Canadian firms benefit from access to procurement opportunities under World Bank-financed loans. Canadian expertise in the power, environmental, engineering, public service reform, health, education, financial and transportation sectors has led to procurement opportunities for Canadian firms for developing country projects around the globe.

In FY 2005, Canadian firms were awarded approximately 143 contracts. Canadian firms were most successful in the areas of public administration and governance, transport, education, mining and energy, health, and finance. Several firms won multiple contracts including Tecsult, Hydro-Québec, Geomar, FreeBalance, and Développement International Desjardins. For Bank-financed procurement, the World Bank only reports contracts awarded above the "prior review" threshold. Therefore, the overall procurement value for Canadian firms is much higher since small contracts are not recorded.

The Executive Director's office, the Office of Liaison with International Financial Institutions (IFIs) at the Canadian Embassy, and the Canadian Private Sector Liaison Officers (PSLOs)[8] to the World Bank undertook a range of outreach and training sessions with the Canadian private sector in 2005. Twenty Bank experts spoke at a series of events across Canada that engaged more than 1,000 private sector participants. Key events included International Development Days (Halifax, April 2005), the Conférence de Montréal (May 2005), and IFI Bootcamp (Kananaskis, October 2005). In addition, the PSLOs led trade missions to Washington with a total of 59 firms, and one PSLO organized a field mission to East Africa with two firms. The PSLO network has broadened its understanding of World Bank policies and in 2005 moved beyond basic procurement training with targeted activities to assist Canadian firms in writing proposals and winning contracts.

Trust Fund Activities

The Bank has adopted a set of reforms that will effectively see the closure of all tied trust funds by the end of FY 2007, including consultant trust funds. In line with our aid effectiveness commitments, Canada supports these reforms and is now in the process of winding down our own consultant trust fund. With current resource levels, it is expected that the Canadian consultant trust fund will close by the end of July 2007. Going forward, Canadian consultants will be able to access a much wider range of opportunities by becoming eligible for contracts funded by any trust fund. Access to procurement opportunities is also expected to become much easier with the launch of the eProcurement system for the selection of consultants and the further development of the Canada-wide PSLO Network, which aims to be a link between the Bank and the Canadian private sector.

[8] The PSLOs include: the regional office of International Trade Canada in Vancouver, Alberta Economic Development, Saskatchewan Trade and Export Partnership, Manitoba Trade and Investment, Canadian Manufacturers & Exporters, World Trade Centre Montréal, and Business New Brunswick.

Challenges Ahead

Five years ago, world leaders laid out a development vision with the Millennium Development Goals (MDGs), which set clear targets for eradicating poverty. This was followed in 2002 by the Monterrey Consensus, which stressed the mutual accountability of developed and developing countries in achieving these goals. With only a decade left to meet these MDG targets, current stock taking exercises suggest their achievement will require a significant scaling up of actions. Donors, conscious of the uneven results of decades of Official Development Assistance, want to ensure that scarce assistance resources produce measurable results. This requires stronger efforts by developing countries to create sound policy and institutional environments. The Bank, as the world's largest provider of development financing, plays a crucial role in providing advisory and financial assistance to countries to help strengthen their economic, social and governance policies. Going forward, this will remain one of the Bank's more pressing challenges.

On March 31, 2005, the Executive Directors unanimously selected Paul Wolfowitz to become the Bank's 10th President. President Wolfowitz is committed to continuing to strengthen the Bank's primary focus on poverty reduction and sustainable growth in developing member countries, as well as the emphasis on partnerships and donor coordination and harmonization.

More effective measurement and monitoring of development results is a critical element of the development effectiveness agenda, and Canada will continue to stress the importance of results-based indicators. While the Bank has embarked on a program to improve its results measurement and monitoring, adapting and refining the Bank's results measurement work to different developing country poverty reduction strategies will be a substantial challenge over the medium term.

Recognizing the importance of country-owned development strategies, the major challenge for the future will be to orient the Bank's operations towards those clients that have strong economic and governance frameworks in place and to help convince countries with weak policy frameworks of the need to alter their policies. As the Bank moves increasingly to support nationally owned development strategies, a key challenge will be to work with developing country governments and civil society to ensure that there is sufficient capacity on the ground to develop and implement these strategies. This is particularly the case with fragile states. The Bank will also have to work increasingly with other partners, both multilateral and bilateral, on the basis of their comparative institutional strengths, to improve the quality and effectiveness of development assistance within individual countries.

The Bank will continue to provide support to developing countries facing a broad range of economic, institutional and social challenges. The Bank's strategy for contributing to capacity building and poverty reduction in low-income countries under stress will continue to evolve based on its operational experience. However, the Bank's future challenges are not limited to the world's poorest countries. A majority of the world's poor live in middle-income countries and, over the coming year, the Bank will be looking at how best to address the problems facing this particular segment of the world's poorest.

Establishing clear development priorities and being more selective in its operations will be critical to future success. Canada will continue to stress the need for the Bank to be increasingly selective and transparent in its operations.

Joint Issues

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods institutions overlap, or where there is a requirement for close cooperation and coordination of activities. The heads of both institutions have put considerable effort into increasing cooperation. Most notably, this year, the Bank and Fund were key players in the Multilateral Debt Relief Initiative.

Multilateral Debt Relief

In September 1996, the IMF and World Bank launched the Heavily Indebted Poor Countries Initiative (HIPC Initiative) to reduce the unsustainable debt burdens of the world's poorest countries. After a review of the HIPC Initiative in 1999, a number of modifications were approved to provide faster, deeper and broader debt relief and to strengthen the links between debt relief, poverty reduction and social development policies. Currently, 38 countries are being considered for assistance under the HIPC Initiative. Guyana, a member of Canada's constituency at the World Bank, completed the HIPC process in December 2003.

Good progress has been made. As of the end of December 2005, 28 countries were benefiting from debt relief under the HIPC Initiative. Eighteen of them (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia) have completed the HIPC process and have received irrevocable debt relief. For these countries, US$56 billion in debt relief has been committed under the HIPC Initiative and they will benefit from an average reduction of two-thirds in their debt burdens. Importantly, for these countries, social spending has dramatically increased, and debt ratios have declined to levels similar to many other poor, but initially less indebted, countries.

In 2004, both the Bank and the Fund agreed to extend the sunset clause of the HIPC Initiative for another two years (to end-2006) in order to give countries that have yet to enter the HIPC process more time to take the necessary steps. A preliminary list of potential new HIPC Initiative entrants was compiled in 2005. A short list is bring finalized and is expected to be ready in early 2006.

To provide additional support for these countries' efforts to reach the United Nations' Millennium Development Goals (MDGs), in June 2005, G8 countries put forward a multilateral debt relief proposal that would cancel 100 per cent of the debts owed to the IMF, IDA and the African Development Fund (AfDF). This would be available to countries that complete the HIPC Initiative. The debt cancellation would provide further significant support for countries' efforts to reach the MDGs, while ensuring that the financing capacity of the international financial institutions is not reduced.

In September 2005, the Governors of the World Bank and IMF indicated their support for the G8 proposal at the Annual Meetings of these institutions. Since then, substantial progress has been made towards completing the process of debt relief for the world's poorest countries. In January 2006, the IMF began implementing the G8 debt proposal, which is now called the Multilateral Debt Relief Initiative (MDRI), by cancelling the debts of 19 countries. In early December 2005, IDA and AfDF donors met to finalize MDRI funding. The remaining implementation details are being worked out, and the debt cancellation by IDA and the AfDF is expected to take effect by July 2006.

Canada's Actions in Support of Debt Relief for the World's Poor

Canada has been at the forefront of international efforts to reduce the debt burdens of the world's poorest countries, both multilaterally and bilaterally.

Multilaterally, Canada has advanced the debt relief agenda by:

- Committing $34 million in Budget 2005 to further debt relief efforts, bringing our total contribution to the HIPC debt relief trust funds at the IMF ($65 million) and World Bank ($281 million) to $346 million.
- Being a leading advocate of the 100 per cent multilateral debt reduction proposal initially put forward by the G8 and now called the Multilateral Debt Relief Initiative. Canada has allocated resources to pay its share of the costs over the first five years.
- Strongly supporting the World Bank and IMF long-term debt sustainability framework for low-income countries and the adoption of this framework under IDA14.

Bilaterally, Canada is helping the poorest countries by:

- No longer collecting debt payments from reforming HIPCs on loans outstanding as of March 31, 1999, under the Canadian Debt Initiative (CDI).
- Forgiving, under the CDI, all remaining debts owed to Canada by eligible countries that have completed the HIPC process—Benin, Bolivia, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Rwanda, Senegal, Tanzania and Zambia.
- Forgiving $1.3 billion in Official Development Assistance (ODA) debt for 46 developing countries since 1978, including all of its ODA debt for 22 HIPCs, at a cost of $900 million. (Among HIPCs, only Myanmar (formerly Burma) currently has ODA debt to Canada.)
- Providing development assistance since 1986 on a grant basis so as to avoid worsening the debt problems in the poorest countries.

Long-Term Debt Sustainability in Low-Income Countries

Debt sustainability is an essential condition for economic stability, which is a foundation for economic growth and development. Many low-income countries have struggled to maintain their external debt at sustainable levels while also trying to meet development objectives such as the MDGs. The economic weakness of many poor countries leaves them vulnerable to exogenous shocks, such as a fall in primary commodity prices, which could alter their debt sustainability prognosis. Excess lending, even on concessional terms, could lead to unsustainable debt burdens going forward.

In the spring of 2004, the World Bank and IMF introduced a new Debt Sustainability Framework (DSF) in low-income countries, which seeks to make that challenge less difficult by providing guidance on new lending to low-income countries whose main source of financing is official loans. The DSF was finalized and adopted under IDA14 in 2005.

The DSF offers a more thorough and appropriate analysis of debt sustainability and takes into consideration country specific circumstances. The new framework is forward-looking, focusing on long-term debt sustainability and preventing future debt crises. It has significant implications for how debt vulnerability is assessed and how donors provide resources to low-income countries. Under the framework, countries with limited capacity to carry debt (countries that have weak governance, for example) would receive a higher percentage of financing in the form of grants than countries with better debt management capacities.

ANNEX 1

Active IMF Lending Arrangements—As of December 31, 2005

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements—Total			**18,659**	**12,491**
Argentina	September 20, 2003	September 19, 2006	8,981	4,810
Bolivia	April 2, 2003	March 31, 2006	146	34
Bulgaria	August 6, 2004	September 5, 2006	100	100
Colombia	May 2, 2005	November 2, 2006	405	405
Croatia, Republic of	August 4, 2004	April 3, 2006	97	97
Dominican Republic	January 31, 2005	May 31, 2007	438	289
Iraq	December 23, 2005	March 22, 2007	475	475
Macedonia, FYR	August 31, 2005	August 30, 2008	52	41
Peru	June 9, 2004	August 16, 2006	287	287
Romania	July 7, 2004	July 6, 2006	250	250
Turkey	May 11, 2005	May 10, 2008	6,662	4,997
Uruguay	June 8, 2005	June 7, 2008	766	705
Extended Fund Facility Arrangements—Total			**794**	**186**
Serbia and Montenegro	May 14, 2002	February 28, 2006	650	62
Sri Lanka	April 18, 2003	April 17, 2006	144	124

Annex 1

Active IMF Lending Arrangements—As of December 31, 2005 *(cont'd)*

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility Arrangements—Total			**2,702**	**1,144**
Armenia	May 25, 2005	May 24, 2008	23	16
Bangladesh	June 20, 2003	June 19, 2006	400	185
Benin	August 5, 2005	August 4, 2008	6	5
Burkina Faso	June 11, 2003	August 15, 2006	24	7
Burundi	January 23, 2004	January 22, 2007	69	29
Cameroon	October 24, 2005	October 23, 2008	19	16
Chad	February 16, 2005	February 15, 2008	25	21
Congo, Republic of	December 6, 2004	December 5, 2007	55	39
Congo, Democratic Republic of	June 12, 2002	March 31, 2006	580	27
Dominica	December 29, 2003	December 28, 2006	8	2
Georgia	June 4, 2004	June 3, 2007	98	56
Ghana	May 9, 2003	October 31, 2006	185	79
Guyana	September 20, 2002	September 12, 2006	55	19
Honduras	February 27, 2004	February 26, 2007	71	41
Kenya	November 21, 2003	November 20, 2006	225	150
Kyrgyz Republic	March 15, 2005	March 14, 2008	9	6
Malawi	August 5, 2005	August 4, 2008	38	33
Mali	June 23, 2004	June 22, 2007	9	7
Mozambique	July 6, 2004	July 5, 2007	11	6
Nepal	November 19, 2003	November 18, 2006	50	36
Nicaragua	December 13, 2002	December 12, 2005	98	36
Niger	January 31, 2005	January 30, 2008	26	15
Rwanda	August 12, 2002	February 11, 2006	4	1
São Tomé and Principe	August 1, 2005	July 31, 2008	3	3
Senegal	April 28, 2003	April 27, 2006	24	14
Sri Lanka	April 18, 2003	April 17, 2006	269	231
Tajikistan	December 11, 2002	February 10, 2006	65	10
Tanzania	August 16, 2003	August 15, 2006	20	6
Uganda	September 13, 2002	December 31, 2005	14	2
Zambia	June 16, 2004	June 15, 2007	220	44
Total			**21,679**	**14,455**

Annex 2

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2005, by Country (July 1, 2004–June 30, 2005)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Borrower or Guarantor				
Afghanistan	–	285.0	6	285.0
Africa Region	–	152.0	4	152.0
Albania	–	61.5	4	61.5
Angola	–	71.7	2	71.7
Argentina	480.0	–	3	480.0
Armenia	–	40.0	2	40.0
Azerbaijan	48.0	51.8	5	99.8
Bangladesh	–	600.0	3	600.0
Benin	–	125.0	3	125.0
Bhutan	–	7.0	1	7.0
Bolivia	–	43.4	2	43.4
Bosnia and Herzegovina	–	57.0	3	57.0
Brazil	1,771.8	–	8	1,771.8
Bulgaria	150.0	–	1	150.0
Burkina Faso	–	135.6	3	135.6
Burundi	–	35.0	1	35.0
Cambodia	–	38.0	2	38.0
Cameroon	–	18.2	1	18.2
Cape Verde	–	30.0	2	30.0
Central America Region	–	8.0	1	8.0
Central Asia Region	–	25.0	1	25.0
Chad	–	48.0	2	48.0
Chile	50.3	–	1	50.3
China	1,030.0	–	9	1,030.0
Colombia	912.0	–	8	912.0
Congo, Democratic Republic of	–	142.0	2	142.0
Congo, Republic of	–	50.0	2	50.0
Costa Rica	30.0	–	1	30.0
Croatia	85.7	–	2	85.7
Djibouti	–	6.5	1	6.5
Dominican Republic	150.0	–	1	150.0
Ecuador	100.0	–	1	100.0
Egypt, Arab Republic of	140.0	–	2	140.0
El Salvador	145.2	–	3	145.2
Eritrea	–	74.0	2	74.0
Ethiopia	–	449.9	6	449.9
Gambia	–	4.0	–	4.0
Georgia	–	23.0	1	23.0
Ghana	–	314.0	4	314.0
Grenada	5.0	5.0	1	10.0
Guinea	–	55.3	2	55.3
Guinea-Bissau	–	7.0	1	7.0
Haiti	–	75.0	3	75.0
Honduras	–	92.0	2	92.0

ANNEX 2

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2005, by Country (July 1, 2004–June 30, 2005) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
India	1,748.5	1,137.8	11	2,886.3
Indonesia	680.8	236.4	8	917.2
Iran, Islamic Republic of	564.0	–	3	564.0
Jordan	15.0	–	1	15.0
Kazakhstan, Republic of	59.0	–	2	59.0
Kenya	–	120.0	3	120.0
Kosovo	–	15.0	3	15.0
Kyrgyz Republic	–	38.1	3	38.1
Lao People's Democratic Republic	–	76.0	3	76.0
Lesotho	–	19.1	2	19.1
Macedonia, Former Yugoslav Republic of	25.3	–	2	25.3
Madagascar	–	193.0	1	193.0
Malawi	–	47.2	2	47.2
Maldives	–	29.6	2	29.6
Mali	–	80.0	2	80.0
Mauritania	–	54.0	2	54.0
Mexico	587.8	–	4	587.8
Moldova	–	11.5	1	11.5
Mongolia	–	18.3	2	18.3
Morocco	330.0	–	3	330.0
Mozambique	–	170.0	2	170.0
Nepal	–	135.0	4	135.0
Nicaragua	–	26.0	2	26.0
Niger	–	40.0	1	40.0
Nigeria	–	329.8	3	329.8
Organisation of Eastern Caribbean States	1.4	1.4	1	2.7
Pakistan	347.4	500.0	4	847.4
Paraguay	28.2	–	3	28.2
Peru	456.8	–	7	456.8
Philippines	99.0	–	3	99.0
Poland	230.5	–	2	230.5
Romania	786.0	–	7	786.0
Russian Federation	205.0	–	2	205.0
Rwanda	–	110.0	3	110.0
São Tomé and Principe	–	5.0	1	5.0
Senegal	–	112.8	5	112.8
Serbia and Montenegro	–	114.0	5	114.0
Sierra Leone	–	103.7	3	103.7
Slovak Republic	6.5	–	1	6.5
Sri Lanka	–	203.0	3	203.0
Saint Lucia	7.1	7.1	2	14.2
Saint Vincent and the Grenadines	3.5	3.5	1.0	7.0

ANNEX 2

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2005, by Country (July 1, 2004–June 30, 2005) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Tajikistan	–	28.0	2	28.0
Tanzania	–	355.5	3	355.5
Timor-Leste	–	5.0	1	5.0
Tonga	–	1.0	1	1.0
Tunisia	163.1	–	2	163.1
Turkey	1,800.1	–	7	1,800.1
Uganda	–	327.6	3	327.6
Ukraine	192.6	–	2	192.6
Uruguay	175.4	–	3	175.4
Uzbekistan	–	40.0	1	40.0
Vietnam	–	698.8	9	698.8
Western Africa Region	–	40.0	1	40.0
Yemen, Republic of	–	65.0	1	65.0
Zambia	–	68.2	2	68.2
Bank-wide total	**13,610.8**	**8,696.1**	**278**	**22,307.0**

Annex 3

IBRD Loans and IDA Credits—Summary Statistics
Fiscal Year 2005 (July 1, 2004–June 30, 2005)

	IBRD	IDA	Total	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
By Area				
Africa	0.0	3887.5	76	3,887.5
East Asia and Pacific	1,809.8	1,073.5	38	2,883.3
Europe and Central Asia	3,588.6	504.9	59	4,093.5
Latin America and the Caribbean	4,904.4	261.3	58	5,165.7
Middle East and North Africa	1,212.1	71.5	13	1,283.6
South Asia	2,095.9	2,897.4	34	4,993.3
Total	**13,610.8**	**8,696.1**	**278**	**22,307.0**
By Theme				
Economic Management				594.6
Environmental and Natural Resource Management				2,493.8
Financial and Private Sector Development				3,862.0
Human Development				2,951.0
Public Sector Governance				2,636.4
Rule of Law				303.8
Rural Development				2,802.2
Social Development, Gender, Inclusion				1,285.8
Social Protection and Risk Management				2,437.6
Trade and Integration				1,079.9
Total				**22,307.0**

Annex 4

World Bank Procurement from Canada

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2005

	IBRD Amount	IDA Amount	Total Amount
		(in millions of US dollars)	
By Fiscal Year			
1997–98	82.0	32.0	114.0
1998–99	69.0	37.0	106.0
1999–00	73.0	22.0	95.0
2000–01	45.0	15.0	60.0
2001–02	48.0	16.0	64.0
2002–03	41.0	20.0	61.0
2003–04	41.0	30.0	71.0
2004–05*	56.1	35.5	94.6

* As of fiscal year 2005, data reflects goods and service contracts awarded and not payments

IBRD Loans and IDA Credits to Developing Countries

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
			(in millions of US dollars)			
By Fiscal Year						
1997–98	151	21,086.2	135	7,507.8	286	28,594.0
1998–99	131	22,182.3	145	6,811.8	276	28,994.1
1999–00	97	10,918.6	126	4,357.6	223	15,276.2
2000–01	91	10,487.1	134	6,763.5	225	17,250.6
2001–02	96	11,451.8	133	8,067.6	229	19,519.4
2002–03	99	11,230.7	141	7,282.5	240	18,513.0
2003–04	87	11,045.4	158	9,034.6	245	20,080.1
2004–05	118	13,610.8	160	8,696.1	278	22,307.0

Note: Joint IBRD/IDA operations are counted once as IBRD operations. When more than one loan is made for a single project, the operation is counted only once.

Annex 5

Communiqués of the International Monetary and Financial Committee of the Board of Governors of the IMF

Washington, D.C.
April 16, 2005

1. The International Monetary and Financial Committee held its eleventh meeting in Washington, D.C. on April 16, 2005 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

2. The Committee welcomes the continuing global economic expansion, underpinned by supportive macroeconomic policies, improving corporate balance sheets, and benign financial market conditions. While returning to a more sustainable pace, global growth will likely remain robust in 2005. The Committee notes, however, that widening imbalances across regions and the continued rise in oil prices and oil market volatility have increased risks. The potential for a sharper-than-expected rise in long-term interest rates from their very low levels and for increased exchange rate volatility also calls for vigilance. The Committee emphasizes that in the coming months IMF surveillance should focus on promoting policies for reducing global imbalances over time; addressing the impact of higher oil prices, in particular on the most vulnerable countries; managing the policy response to potential inflationary pressures; and ensuring the sustainability of medium-term fiscal frameworks.
3. The Committee reiterates that all countries have a shared responsibility to take advantage of the current favorable economic conditions to address key risks and vulnerabilities. To ensure orderly adjustment of global imbalances and to help achieve more sustainable external positions and stronger medium-term growth, the Committee calls for concrete actions by all to implement the agreed policy response in a timely and effective manner. This includes fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility as appropriate, supported by continued financial sector reform, in emerging Asia; further structural reforms to boost growth and domestic demand in Europe; and further structural reforms, including fiscal consolidation, in Japan.
4. The Committee notes that conditions in the oil market will remain tight in the medium term, reflecting strong global demand, low excess capacity, and supply concerns even after investments in some countries. It underscores the importance of stability in oil markets for global prosperity, and recognizes the impact of higher oil prices especially on poorer

communities. In this context, the Committee calls for efforts to remove disincentives to investment in oil production and refining capacity, and to promote energy sustainability and efficiency, including through new technologies and removing barriers to the development of alternative fuels. It encourages closer dialogue between oil exporters and importers, and further efforts to improve oil market data and transparency.

5. Inflation remains relatively subdued in most countries, reflecting in part greater credibility of monetary policy. However, with inflationary pressures likely to increase as the expansion matures, a smooth transition to more neutral interest rates remains a priority in many countries, although the appropriate timing and pace will vary, depending on countries' cyclical positions. In countries receiving strong capital inflows, exchange rate flexibility would facilitate monetary management.

6. Steps to strengthen fiscal positions within sound frameworks and address structural weaknesses will also be critical for supporting medium-term growth and macroeconomic stability, and meeting demographic challenges. Fiscal deficits remain high in many industrial countries and should be reduced. In emerging markets, fiscal indicators have generally improved, but in countries with high levels of public debt continued efforts will be needed to reduce them to more sustainable levels. In both industrial and developing economies, structural reforms need to be advanced to remove rigidities and ensure sustainable growth. The Committee welcomes Argentina's rapid recovery. The recent debt exchange offer represents an important step toward the long-term goal of sustainable growth. Argentina will now need to formulate a forward-looking strategy to resolve the remaining arrears outstanding to private creditors consistent with the IMF's lending into arrears policy, and to continue with necessary structural reforms.

7. Poverty reduction must remain at the top of the international agenda. The Committee welcomes the strong growth performance across developing countries, particularly in sub- Saharan Africa, but notes with concern that most of them are at risk of falling well short of the Millennium Development Goals (MDGs).[1] With improved macroeconomic stability in most countries, the key challenge remains to press ahead with reforms to strengthen the investment environment and foster private sector-led growth. The global community, in turn, needs to support these reform efforts through meeting commitments to increased and better coordinated financial and technical assistance, further debt relief, policies to improve remittance flows, and improved market access for developing countries.

8. The Committee emphasizes that successful and ambitious multilateral trade liberalization is central to sustained global growth and economic development. The immediate priority is for WTO members to translate the mid-2004 framework agreements into a viable policy package in time

[1] As endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000.

for the December 2005 WTO Ministerial Conference. The Committee encourages Doha participants to aim for ambitious and comprehensive results, notably in agriculture; substantial reductions in barriers to other trade, including liberalization in financial and other services; and strengthened multilateral trade rules. The Committee supports the IMF's continued role in advocating trade liberalization and assisting members to benefit from it. It encourages the IMF to work with other partners in the Integrated Framework to explore further ways of easing adjustment to trade liberalization, including through the Trade Integration Mechanism, and building capacity in low-income countries. The Committee looks forward to consideration of proposals at its next meeting.

Shaping the IMF's Strategic Direction

9. The Committee welcomes the discussions underway on the IMF's medium-term strategy, and looks forward to reaching conclusions by the 2005 Annual Meetings and further reflection on longer-term issues. The Committee agrees that the central elements of the IMF's mandate as set out in its Articles of Agreement remain as important as ever. The challenge is to enhance the IMF's effectiveness in pursuing its core objectives, while continuing to adapt to changing global economic circumstances. This would ensure that the IMF remains relevant for all its members, which would further foster the coherence, credibility, and evenhandedness of the IMF.
10. The Committee calls for further work on the following emerging priorities that will help shape the institution's strategic direction:
    - Surveillance is a central task of the IMF and determined efforts are required to enhance its effectiveness and impact, building on the conclusions of the Biennial Review of Surveillance. Surveillance should become more focused and selective in analyzing issues, in an evenhanded way across the membership. Regional and global surveillance should play an increasingly important role, and be better integrated with bilateral surveillance.
    - Work on financial sector issues and international capital markets should be further strengthened to reduce vulnerabilities and promote financial stability. This, including the Financial Sector Assessment Program, should be integrated more fully into surveillance and other activities, and complemented by advice to members on ways to improve access to international capital markets and on orderly capital account liberalization.
    - The IMF's lending function is a central pillar of its mandate. All lending should be selective and anchored in strong country ownership and institutional frameworks, putting members firmly on the road to external viability. The Committee looks forward to further reflection on how the needs of members could be met through IMF arrangements, and whether new instruments or revisions to existing facilities are required.

- The IMF has a critical role to play in helping low-income countries in their efforts to reduce poverty and achieve strong, sustainable growth through sound policies and institutions for macroeconomic stability. Efforts should continue to adapt the IMF's activities and instruments to the special circumstances and challenges of low-income countries, based on strong cooperation and clarity of responsibilities with the World Bank.
- The IMF must meet the highest standards of internal management, control, auditing, and governance. This will require further deepening of budget reforms, further work on the IMF's finances and financial structure, and efficient deployment of resources to reflect priorities. The Committee also looks forward to further work on risk management and control, and personnel management systems.
- The IMF's effectiveness and credibility as a cooperative institution must be safeguarded and further enhanced. Adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy. The Committee emphasizes that the period of the Thirteenth General Review of Quotas provides an opportunity for the membership to make progress toward a consensus on the issues of quotas, voice, and participation.

IMF Support for Low-Income Members' Efforts Toward Poverty Reduction and Strong, Sustainable Growth

11. The Committee underscores the conclusion of this year's Global Monitoring Report that bold actions are urgently needed by the developing countries and their partners to realize the MDGs. The U.N. Summit in September 2005 will mark an important milestone to review progress and lay out actions going forward. The IMF has a critical role in supporting —through policy advice, capacity building, and financial assistance, including debt relief—low-income countries' efforts to achieve macroeconomic stability, debt sustainability, and strong, sustainable high growth needed to make progress toward the MDGs.
12. Work is underway to refine the operational aspects of the Poverty Reduction Strategy (PRS) approach, improve the design of PRGF-supported programs, and enhance PRGF-PRS alignment. This will be underpinned by more extensive analyses of the sources of and obstacles to growth, and of the linkages between growth and poverty reduction. The Committee looks forward to further work to ensure adequate financing of the PRGF to meet future demands as assessed by the IMF, and other IMF instruments to assist low-income countries, including to help members deal with shocks. It also looks forward to further work on a policy monitoring arrangement to enhance the IMF's signaling role for countries that do not need or want IMF financing.

13. The Committee supports work by the IMF and World Bank on aid effectiveness and financing modalities. On innovative sources of development financing, such as the International Finance Facility (IFF) and its pilot—the IFF for immunization—global taxes which could also refinance the IFF, the Millennium Challenge Account, and other financing measures, it welcomes the joint IMF and World Bank note outlining progress that has been made. The Committee asks to be kept informed of the further work ahead of the U.N. Summit.
14. The Committee notes the recent progress in providing debt relief under the HIPC Initiative. It encourages countries to take the necessary actions to benefit from the Initiative, and urges full creditor participation. The Committee supports the joint IMF-World Bank framework to assist low-income countries' efforts to achieve and maintain debt sustainability while pursuing their development objectives, and a review of experience under the framework.
15. The Committee welcomes the IMF's work and the preliminary discussion of key issues regarding proposals for further multilateral debt relief and its financing options, and calls for further discussion with shareholders and examination of these issues, including the possible use of the IMF's resources, by the time of its next meeting. It notes that any possible further debt relief from the IMF should be part of a wider international effort.

Other Issues

16. The Committee welcomes progress toward meeting the objectives of IMF surveillance identified at its last meeting, including in the areas of exchange rate issues, financial sector surveillance, better integrating debt sustainability analysis and regional and global spillovers into country surveillance, and balance sheet vulnerabilities. It also welcomes the *Africa Regional Economic Outlook*. The Committee looks forward to the upcoming review of the Standards and Codes Initiative to assess its effectiveness in informing surveillance, enhancing crisis prevention, and strengthening countries' institutions.
17. The Committee welcomes the increased adoption of collective action clauses in international sovereign bonds, and calls on the IMF to continue to promote progress in this area. It notes the "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets" being developed by a number of sovereign issuers and the investor community, and encourages further efforts to improve the Principles aimed at achieving a broad consensus. The Committee looks forward to further work on the orderly resolution of financial crises, including the implementation of the IMF's lending into arrears policy.
18. The Committee takes note of the recent review of IMF conditionality, including the design of IMF-supported programs. Progress has been made in streamlining conditionality and fostering national ownership. The Committee encourages the IMF to incorporate the findings of the review into its operational work, and to deepen further its analysis of key elements of program design.

19. The Committee recommends completion of the ratification of the Fourth Amendment.
20. The Committee wishes to thank James Wolfensohn for his great contribution as President of the World Bank. During his time at the helm of the Bank, great strides have been made in cooperation and partnership between the IMF and the World Bank, and in progress toward realizing our dream of a world free of poverty.
21. It is expected that the next meeting of the IMFC will be held in Washington, D.C. on September 23, 2005.

Washington, D.C.
September 24, 2005

1. The International Monetary and Financial Committee held its twelfth meeting in Washington, D.C. on September 24, 2005 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

2. The Committee welcomes the ongoing global economic expansion, although it notes that growth divergences between countries remain wide. Global growth is expected to continue, although downside risks to the outlook have increased, especially high and volatile oil prices, recently exacerbated by the effects of Hurricane Katrina, the widening of global imbalances, increasing protectionist sentiment, and the possibility of tighter financial market conditions. While core inflation generally is contained and inflation expectations remain well anchored, higher oil prices remain a risk to price stability. The Committee notes that these areas should be a particular focus of IMF surveillance and policy advice in the coming months.
3. The Committee emphasizes that oil producers, oil consumers, and oil companies will all have their part to play in working together to promote greater stability in the oil market. First, the Committee welcomes the action by members of the International Energy Agency and oil-producing countries to continue to increase supplies to the market. Second, the Committee calls for further investment both now and in the long term throughout the supply chain, particularly in refining capacity including of heavy oil, and for efforts to create a favorable investment climate. Third, the Committee also stresses the importance of policies to promote energy conservation, efficiency, and sustainability, including through new technologies, alternative sources of energy, and reducing subsidies on oil products. Fourth, the Committee encourages closer dialogue between

oil producers and consumers, and further efforts to improve oil market data and transparency to improve market efficiency. Fifth, the IMF should stand ready to provide assistance to help members, especially poor countries, deal with oil price shocks.

4. The Committee welcomes recent progress in implementing the agreed policies to address global imbalances and foster growth, but urges further action to promote orderly adjustment in view of the heightened risks to the outlook. This includes: fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility in emerging Asia; further structural reforms to boost potential growth in the euro area; and further structural reforms, including fiscal consolidation, in Japan, where the economy is regaining momentum. Measures to promote a more investor-friendly environment, including in a number of emerging market economies, would also contribute to reducing imbalances. Oil-exporting countries will also need to play their part, including through efficient absorption of higher oil revenues in countries with strong macroeconomic policies.
5. Steps to strengthen medium-term fiscal positions remain crucial for supporting global growth and stability. Fiscal deficits in many industrial countries need to be lowered further, and reforms to address pressures from aging populations and ensure the sustainability of pension and health care systems need to be accelerated. Improvements in the fiscal positions and debt structures of many emerging market countries are welcome, but in countries with high public debt levels continued fiscal consolidation efforts are needed. The Committee also calls for more ambitious efforts to address rigidities in labor and product markets in many countries. Regulatory and supervisory authorities should remain alert to risks stemming from ample global liquidity and associated risk taking and leverage.
6. The Committee emphasizes that a successful outcome to the Doha Round by the end of 2006 remains of critical importance for global growth and poverty reduction. Serious challenges remain in reaching agreement at the WTO ministerial meeting in Hong Kong SAR in December. As finance ministers and central bank governors of WTO member countries, we have a vital interest in successful multilateral trade liberalization. Benefiting from a useful exchange of views with Mr. Pascal Lamy, the Director-General of the WTO, the Committee calls on all countries to ensure progress on ambitious trade liberalization with the urgency that the timetable now demands. Key areas for action are: increasing market access, especially for developing countries; significantly reducing trade distorting domestic support; eliminating all forms of export subsidies in agriculture; and making significant progress on services, including financial services, and on issues of intellectual property. The Committee welcomes the joint IMF-World Bank staff report on proposals to enable low-income countries to benefit fully from trade liberalization, and urges the Executive Board to consider these proposals expeditiously.

7. The Committee welcomes the enhanced growth performance and prospects of many of the world's poorest countries, reflecting improvements in their underlying policies. With ten years remaining to meet the Millennium Development Goals (MDGs),[1] those countries should move rapidly to strengthen policies needed for sustainable growth and poverty reduction, including through sound macroeconomic frameworks and building the sound, accountable, and transparent institutions that are essential for fostering growth and supporting vibrant private sector growth. Also, the international community must follow through expeditiously on its renewed commitments to provide additional resources, including at the Gleneagles Summit and the Millennium Review Summit. An ambitious outcome to the Doha Round is also essential for poverty reduction.

IMF Objectives and Medium-Term Strategy

8. The Committee welcomes and supports the broad priorities set forth in the *Managing Director's Report on the Fund's Medium-Term Strategy* to improve the IMF's effectiveness in support of its members. In the coming years the IMF will continue to work to help members meet the economic challenges of globalization within its mandate in the macroeconomic and financial areas. The Committee looks forward to specific proposals and timelines on the main tasks identified in the medium-term strategy in the Executive Board's work program, within the context of the IMF's medium-term budget framework and the staff compensation review.
9. The broad priorities set out in the Managing Director's report[2] are to:
    - Make surveillance more effective;
    - Adapt to new challenges and needs in different member countries;
    - Help build institutions and capacity;
    - Prioritize and reorganize the IMF's work within a prudent medium-term budget; and
    - Address the issues of fair quotas and voice.

    The Committee agrees that the IMF needs to deepen its analysis of globalization and continue to develop its strategy for responding to the long-term challenges it poses.

Strengthening IMF Support for Low-Income Countries—Instruments; Financing; and Debt Relief

10. The Committee reiterates that the IMF has a critical role in supporting low-income countries through policy advice, capacity building, and financial assistance. The PRGF remains the main instrument for IMF

[1] As endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000.

[2] The report can be found at http://www.imf.org/external/np/omd/2005/eng/091505.pdf.

financial support for low-income country members. The Committee agrees that the IMF's concessional lending should be financed at an appropriate level as assessed by the IMF. The Committee calls for incorporation of the lessons from the recent review of the design of PRGF-supported programs in the future work of the IMF in low-income countries.

11. The Committee welcomes the progress made on new instruments that will strengthen IMF support for low-income countries. The Policy Support Instrument (PSI) will be available to members that do not need, or want, IMF financial assistance, but voluntarily request IMF endorsement and continued assessment of their policies as meeting the standard of upper credit tranche conditionality. The country-owned policy frameworks designed by the authorities would consolidate medium-term macroeconomic and financial stability, and deepen reforms in support of poverty reduction and economic growth. A new window in the PRGF Trust will also be available to complement existing instruments by providing timely concessional support to low-income members without a regular PRGF arrangement and who are facing exogenous shocks, and we look forward to contributions from countries.
12. The Committee supports the proposal to provide 100 percent cancellation of debts owed by Heavily Indebted Poor Countries (HIPCs) to the IMF, the International Development Association and the African Development Fund. This will provide significant additional resources for countries' efforts to reach the MDGs and reinforce longer-term debt sustainability. The Committee welcomes the approach subsequently discussed in the IMF to ensure that the IMF's resources will be used consistently with the principle of uniformity of treatment. It stresses the importance of ensuring that the IMF's capacity to provide financing to low-income countries is maintained, and therefore welcomes G-8 countries' commitments to provide additional resources. It also emphasizes that countries benefiting from irrevocable debt relief should have demonstrated sound policies and high standards of governance. Following this agreement now reached on all the elements, the Managing Director has informed the Committee that he will now call the Executive Board together to complete its approval of the arrangements to deliver debt relief by the end of 2005. The implications of debt cancellation for the new debt sustainability framework should be addressed in the review scheduled for Spring 2006. There should be a regular report on progress at future meetings of the Committee.
13. The Committee underscores the importance of full creditor participation, including by non-Paris Club creditors and private creditors, in contributing their share to implementing the enhanced HIPC initiative. It takes note of the work on identifying low-income countries with unsustainable debts as of end-2004, with a view to finalization by early 2006 of the list of countries potentially eligible for HIPC assistance.
14. The year 2005 is the International Year of Microcredit. The Committee notes the IMF's role in improving data availability on microcredit and in addressing microcredit issues in the Financial Sector Assessment Program.

Other Issues

15. The Committee welcomes the rapid progress on the inclusion of collective action clauses in international sovereign bonds, and the efforts by emerging market issuers and private sector creditors to broaden the consensus on the "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets." The Committee looks forward to further work on the orderly resolution of financial crises, including the implementation of the IMF's lending into arrears policy.
16. The Committee calls for continued actions by all countries to develop strong programs on anti-money laundering and combating the financing of terrorism (AML/CFT). The Committee supports the IMF's efforts to implement its intensified AML/CFT work program, and notes the critical importance of supporting countries' efforts with well-targeted and coordinated technical assistance.
17. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement. The Committee reiterates that the IMF's effectiveness and credibility as a cooperative institution must be safeguarded and further enhanced. Adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy. The Thirteenth General Review of Quotas presents an opportunity to address the issue, and we look forward to progress on this issue and a report back at our next meeting.
18. The Committee looks forward to continued high-quality reports by the Independent Evaluation Office (IEO) under the leadership of its new Director, Thomas Bernes, and to the upcoming external evaluation of the IEO.
19. The Committee paid tribute to Alan Greenspan, in his last meeting of the IMFC, for his outstanding leadership of the Federal Reserve and his unprecedented and much valued contribution to the Committee's work over the last eighteen years.
20. The next meeting of the IMFC will be held in Washington, D.C. on April 22, 2006.

Annex 6

Communiqués of the Development Committee of the Boards of Governors of the World Bank and IMF

Washington, D.C.
April 17, 2005

1. As we approach the fifth anniversary of the U.N. Millennium Declaration, we met to review progress towards the MDGs[1], based on an assessment in the second annual Global Monitoring Report. We reaffirmed our strong support for the strategies and decisions agreed in Doha, Monterrey and Johannesburg which set out a framework for fighting poverty and achieving the internationally agreed goals. We welcome the continued active involvement of the Bank and the Fund in the preparations for and the proceedings at the UNGA Special Session on Financing for Development, as well as the UN High-Level Millennium Review in New York in September.
2. We welcomed the progress achieved, on actions both by developing and developed countries. These actions have contributed to the strongest global economic growth in over three decades. However, overall progress has been uneven and slower than envisaged. Without tangible action to accelerate efforts, the vision of the Millennium Declaration will not be realized. At stake are prospects not only for hundreds of millions of people to escape poverty, disease, illiteracy, and gender inequality but also for long-term global security and peace, which are intimately linked to development.
3. All regions face significant challenges, but we welcomed the Report's focus on sub-Saharan Africa as the region farthest from achieving the MDGs. We also welcomed the recent Report of the Commission for Africa. We are encouraged that real growth in sub-Saharan Africa increased in 2004 to an eight-year high of 5 percent and inflation has fallen to an historical low. The challenge is to accelerate and sustain growth and development through sound policy frameworks .We welcomed the IFC's Strategic Initiative for Africa, including the recently approved Private Enterprise Partnership Facility. We call upon the Bank to undertake further analytical and institutional work, together with partners, to develop an ambitious action plan for Africa for consideration by our next meeting.
4. Many developing countries are taking actions to strengthen policies and institutions which not only provide benefits but also valuable experience for others. We endorsed the emphasis on country-led and owned development strategies and urged that MDGs be operationalized in poverty reduction strategies, linked to medium term budgetary frameworks. Macroeconomic stability remains critical, as is the need to strengthen public sector financial management, promote good governance

[1] As endorsed by Heads of State and Government in the U.N. General Assembly on September 8, 2000.

including combating corruption and promoting the rule of law, improve business climate and regulation and develop local financial markets, so as to enable private sector led economic growth. Environmental sustainability remains critical and should also be addressed in domestic policies and programs, as well as through international action. We recognize the importance of all countries integrating climate concerns into their policy planning.

5. A major scaling up of education (in particular through the Education For All Fast Track Initiative), health and basic infrastructure services, including water and sanitation, is fundamental to meeting key development goals. We noted with concern the failure to meet the target date for achieving gender parity in primary and secondary education. We called upon bilateral donors and multilateral agencies to provide timely, predictable and sustained financing to support these efforts. We reconfirmed the importance of efforts to help developing countries build capacity and address absorptive capacity constraints.
6. We have in the past highlighted the critical importance of scaling up infrastructure investment in developing countries as a means of promoting economic growth and achieving the MDGs, and have endorsed the Infrastructure Action Plan of the World Bank. With a view to removing such impediments as may exist in enabling the Bank to scale up the infrastructure work, we look forward to reviewing implementation of the Action Plan at our next meeting, including the results of the ongoing work of the IMF and Bank on how to increase fiscal space for growth.
7. To complement these actions, developed countries must meet their commitments to help accelerate progress. We underlined the vital importance of an ambitious outcome for the Doha Development Agenda and the successful completion of the negotiations in 2006. Improving trade opportunities and market access for agriculture, industrial products and services will be critical. We stressed the need for "aid for trade" and we call on the Bank and Fund to work with others to develop proposals to help developing countries adjust to and take advantage of the round, for consideration by our next meeting. We also recognized the benefits to developing countries from reducing developing country trade barriers and of strengthening South-South trade.
8. Financing the development agenda remains a significant challenge, requiring sustained action on domestic resource mobilization, private investment and trade. We welcomed the Bank's work program to improve analysis and statistics on remittances, labor mobility and migration, and to address impediments to remittance flows. We emphasized that a significant increase in aid will also be needed for accelerated progress towards the MDGs. We welcomed the successful conclusion of the IDA 14 replenishment as an important step in mobilizing additional resources and called on donors to finalize their commitments. We noted the further work on the impact of exogenous shocks on low-income countries and small vulnerable states and we look forward to further proposals in the context of the IDA14 mid-term review on what options are available to operationalize these proposals.

9. We also welcomed the agreement by the Bank and Fund on a joint forward-looking framework for assessing debt sustainability in low-income countries. We welcomed recent proposals for additional debt and debt service relief. We agreed that further debt relief beyond HIPC is needed in specific cases to secure long term debt sustainability and support progress towards the MDGs. We ask the Bank and Fund to examine these proposals for the Annual Meetings.
10. We confirmed our commitment to deliver on the pledges made at and after Monterrey to raise levels of ODA. We urged those donors that have not done so to make concrete efforts towards the target of 0.7 percent of GNI as ODA.
11. We welcomed further work on innovative sources of development financing. We noted that negotiations among interested parties on the proposed pilot IFF for Immunization are well advanced; and the analysis of technical feasibility of the IFF has created the conditions for the necessary political decisions on participation. We encourage interested donors to proceed with these proposals. Potential participants believe that global tax mechanisms to finance development may be feasible and desirable, while other members do not. We noted the analysis of the economic rationale, technical feasibility, and moderate coalition size needed for some of the global tax proposals. Building upon the existing political momentum in some countries, we invite the Bank and the Fund to deepen their analysis of the most promising nationally applied and internationally coordinated taxes for development for the Annual Meetings, as an input into the consideration of a pilot case for interested countries.
12. We also underlined the importance of further action by multilateral development partners, including support for the PRS process in low-income countries, aligning assistance better with medium-term country strategies, streamlining conditionality, building institutional capacity and strengthening the focus on development results. We called for further exploration of blending arrangements, for further action to enhance effectiveness and for continued progress in providing innovative and flexible financial products and high quality technical assistance and advisory services better matched to the evolving and diverse needs of middle-income countries; and to strengthen the Bank's role in these countries, not least with regard to global public goods.
13. We welcomed the Paris Declaration on Aid Effectiveness which responded to our earlier call to make firm commitments on the quality of aid. We note the agreement on quantitative indicators. We urged the establishment of targets, as agreed, for each of the indicators for 2010. Concerted collective actions will be required now to translate these into concrete actions at the country level and we called on the Bank to show leadership by example, in implementing the Paris framework. We welcomed the increasing use of country systems, where appropriate, as a means to enhance harmonization and reduce the cost of doing business.

14. Enhancing voice and participation of developing and transition countries in the Bank and the Fund remains a continuing concern. Progress can only be made through broad consensus at the political level. We noted the further efforts by the Boards in this regard and will return to this issue at our next meeting in the light of progress.
15. We appreciate the efforts of the global community to counter the effects of the deadly tsunamis that wreaked havoc in the Indian Ocean region. The tragedy reminded us that the poorest people tend to be the most vulnerable to natural disasters. We called for a continued focus on the challenge of accelerating the reconstruction and recovery process in the region, restoring livelihoods and on designing projects for disaster preparedness and risk mitigation.
16. A strong and effective multilateral system is essential in the fight against global poverty. We expressed our deep appreciation for the talented leadership of Jim Wolfensohn as he approaches the end of his term at the Bank and wish him success in his new role as Special Envoy for Gaza Disengagement. We also congratulate Paul Wolfowitz on his selection as President and look forward to working with him.
17. The next meeting of the Committee will be held in Washington D.C. on September 24, 2005.

Washington, D.C.
September 25, 2005

1. We met against the background of a series of major meetings in this "Year of Development," in particular the United Nations 2005 World Summit held in New York on September 14-16. These meetings, including the G8 Summit held in Gleneagles in July, have resulted in significant progress in building and deepening consensus on key elements of the development agenda. In our discussions we focused on implementation and priorities for action.
2. We reiterated our support for the realization of the internationally agreed development goals, including the Millennium Development Goals (MDGs), and recognized that this calls for a stronger international development partnership. We are encouraged by commitments to reinvigorate the aid partnership, with stronger policies in many developing countries matched by commitments by developed countries and other donors for significant additional aid and debt relief and steps to improve development effectiveness. We reaffirmed the importance of sound policies, including promoting a strong private sector and improving governance, in developing countries to the achievement of the development goals. In this connection, we emphasized the importance of expanding opportunities for those who have the least voice and the fewest resources and capabilities. We welcomed the increased resources that will become available as a result of the recent establishment of timetables by many donors to achieve the target of 0.7 percent of GNP for ODA.

We commended donors who have already reached or exceeded this target. As called for by world leaders at the recent UN Summit, we urged those developed countries that have not yet done so to make concrete efforts in this regard in accordance with their commitments. We noted the launch of the International Finance Facility for immunization and the upcoming implementation of an airline ticket solidarity tax by a group of countries. We called on the Bank to assist with implementation issues, as appropriate, to ensure that these initiatives are coherent with the overall performance- and country-based aid architecture. We also noted ongoing work on blending arrangements and advance market commitments for vaccines.

3. As important as mobilizing more aid is action to improve the quality of aid. We welcomed progress toward establishing tangible indicators and targets for commitments made in the Paris Declaration on Aid Effectiveness. We asked the Bank to work closely with the OECD Development Assistance Committee and other partners to support the delivery and improve the quality of increased assistance, through systematic monitoring and follow-up on aid commitments, and through vigorous implementation of the agreed agenda on managing for results, harmonization, and alignment.
4. We welcomed the World Bank Group's ambitious Africa Action Plan, which will support African countries in their efforts to increase growth, tackle poverty, and achieve the MDGs. We called for timely and vigorous implementation of the Plan and urged that the Bank work closely with the African Union, New Partnership for Africa's Development, African Development Bank, African Partnership Forum and other partners. We commended the Plan's results-oriented approach and the concrete actions it proposes to ensure that increased aid will be used effectively. The Action Plan correctly focuses on building state capacity and improving governance; strengthening the drivers of growth; and promoting broad participation in growth and sharing its benefits. We commended its comprehensive approach toward developing an African private sector, creating jobs, enhancing exports, expanding infrastructure, raising agricultural productivity, strengthening human development, building capacity (including in conflict-affected and fragile states), and increasing regional integration. Related areas we emphasized include strengthening the implementation of Education for All Fast Track Initiative, including closing of the financing gap; stepping up the fight against major diseases including HIV/AIDS and malaria; promoting women's role in development; and improving the environment for small and medium enterprises, including access to microfinance. We called for further analysis and elaboration of proposed new mechanisms to scale up and strategically target aid to countries and programs with potentially high development impact, which are complementary to and consistent with IDA framework. We also welcomed the Plan's emphasis on partnerships, monitoring and evaluation, and consultative mechanisms, including reporting back to the Committee on progress on a regular basis in the context of the Global Monitoring Report, starting in 2007.

5. We welcomed the G8 proposal for 100 percent cancellation of debt owed by eligible heavily indebted poor countries (HIPCs) to the International Development Association (IDA), the African Development Fund (AfDF), and the International Monetary Fund, as providing a valuable opportunity to reduce debt and increase resources for achieving the MDGs. In order to expedite the implementation of the proposal, we agreed on the need for an interdependent package consisting especially of dollar for dollar compensation for IDA that is truly additional to existing commitments and that maintains the financial integrity and capacity of IDA to assist poor countries in the future. We are agreed on the need for additionality of donor resources for debt relief to provide tangible benefits to HIPCs. We are confident that the package, including financing, the main technical features of the proposal and burden sharing on a voluntary basis will provide these benefits. We emphasized the importance of maintaining sound economic performance and good governance by eligible countries. We urged donor countries to ensure financing to fully compensate IDA for forgone reflows resulting from debt relief in order to reach a final agreement on the proposal. We welcomed the delivery commitments by the G8 in their letter to the World Bank President. We asked the Bank to prepare a compensation schedule and monitoring system of all donor contributions urgently. On this basis we expressed our support for the aforementioned package and urged the Bank to proceed with the steps to ensure all necessary arrangements for implementation.
6. We also reviewed the implementation of the HIPC Initiative, welcomed continued progress in providing debt relief to HIPCs, noted the need to fill the current funding gap, and urged full creditor participation. We continue to underline the importance of the existing agreement that contributions under the HIPC Initiative be additional to other contributions to IDA. Eighteen countries have reached the completion point and another ten are between decision and completion points. We look forward to a final list of eligible countries in early 2006.
7. Stronger country policies and more and more effective aid must be complemented with ambitious moves to increase openness and market access and to ensure that trade benefits the poor. Without a timely and ambitious outcome for the Doha Development Agenda, developing countries will not achieve the economic growth needed to meet the MDGs. As we approach the crucial Hong Kong Ministerial meeting, which will be an important milestone toward concluding the Doha Round in 2006, now is the time for action by all WTO members to move the negotiations forward, and we called upon developed countries to show leadership. We cannot overemphasize the importance for the global economy and for meeting the MDGs of achieving an outcome that includes: (i) a major reform of agricultural trade policies to expand market access and eliminate trade-distorting subsidies; (ii) action to open markets in manufactures and services; and (iii) increased aid for trade to address supply-side constraints and enhance the capacity of developing countries to take advantage of expanded trade opportunities. We endorsed the proposal for an enhanced

Integrated Framework for Trade-related Technical Assistance, including expanding its resources and scope and making it more effective. We asked the Bank and the Fund to examine further the adequacy of existing mechanisms to address regional or cross-country aid for trade needs and explore new mechanisms as appropriate. We supported a strengthened framework for assessing adjustment needs so that IFI and donor assistance mechanisms can be better utilized. We urged the Bank and the Fund to better integrate trade-related needs into their support for country programs. We also asked the Bank and the Fund to continue their global advocacy role on trade and development.

8. Scaling up investment in infrastructure, alongside strong programs for education and health, is key to faster growth and progress in reducing poverty. We welcomed the progress made by the Bank Group in implementing the Infrastructure Action Plan and strengthening public-private partnerships to leverage investment and maximize impact, including in the framework of the newly established Africa Infrastructure Consortium. We called for continued deepening and scaling up of support for infrastructure service delivery, and removal of impediments in this regard, in order to respond to needs in both low- and middle-income countries. As part of this effort, we look forward to a progress report at our next meeting by the Bank on the impact of fiscal space on growth and achievement of the MDGs, in continued cooperation with the Fund on the macroeconomic aspects of this issue.
9. We welcomed the review of World Bank conditionality and endorsed the good practice principles the Bank has put forward to streamline conditionality and strengthen country ownership and leadership. We called for regular monitoring to ensure their consistent implementation at the country level and for a report on progress next year. We also welcomed the work on enhancing IMF instruments in support of its low-income members, and called for further strengthening Bank-Fund collaboration in this area.
10. We welcomed the joint Bank-Fund review of the poverty reduction strategy approach and noted the contribution the PRS approach is making to enhancing country leadership of the development agenda, promoting the articulation of clear and coherent country policies and priorities for spurring growth and reducing poverty, improving budget and monitoring systems, and sharpening the focus on development results. We noted that country ownership based on broad participation is now central to the PRS approach. We also noted the value of country-led diagnostics including poverty and social impact analysis in supporting the PRS approach. Good progress notwithstanding, continued efforts are needed to strengthen poverty reduction strategies and their implementation in many countries. This includes efforts by countries to improve policies, domestic resource mobilization, governance, and accountability and by donors to provide support in a predictable, aligned, and harmonized manner.

11. We support the World Bank's efforts, including through the Global Environment Facility, to assist member countries in measures to mitigate and adapt to the impact of climate change and improve energy efficiency and access to renewable and cost-effective energy; and welcomed efforts to follow up on the Gleneagles plan of action with early consultations to identify pragmatic investment and financing policy actions that can help further the goals of the United Nations Framework Convention on Climate Change. We look forward to a report for our next meeting on progress made in developing dialogue with partner countries and institutions and a future investment framework.
12. The Committee considers the issue of enhancing the voice of developing and transition countries in our institutions to be of vital importance. We will continue our discussions with a view to building the necessary political consensus on this matter, taking into account progress in the context of the IMF quota review.
13. The Committee expressed its appreciation to Mr. Trevor Manuel, Minister of Finance of South Africa, for his valuable leadership and guidance as Chairman of the Committee during the past four years, and welcomed his successor, Mr. Alberto Carrasquilla, Minister of Finance and Public Credit of Colombia. We expressed our gratitude to James Wolfensohn for his outstanding leadership of the World Bank Group during the last 10 years, and welcomed the new President of the World Bank, Paul Wolfowitz, who attended his first meeting of the Development Committee, and wished him a successful tenure. The Ministers also expressed their warm thanks to Mr. Thomas Bernes upon conclusion of his tenure as the Committee's Executive Secretary.
14. The Committee's next meeting is scheduled for April 23, 2006, in Washington, D.C.

Report on Operations Under the Bretton Woods and Related Agreements Act

2006

CANADA'S NEW GOVERNMENT

Report on Operations Under the Bretton Woods and Related Agreements Act

2006

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Ministère des Finances Canada

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A Word From the Minister of Finance

I am pleased to present to Members of Parliament and to the Canadian public the Department of Finance's 2006 Report on the Operations Under the Bretton Woods and Related Agreements Act. This report responds to the requirement laid out in Section 13 of the Bretton Woods and Related Agreements Act that the Minister of Finance "shall cause to be laid before Parliament, on or before March 31 next following the end of each calendar year or, if Parliament is not then sitting, on any of the first thirty days next thererafter that either House of Parliament is sitting," a report containing a summary of operations under this act and details of how those operations directly affect Canada.

The format of this report differs significantly from those of past years. My colleagues in Parliament have delivered a strong message that this annual report needs to present a clearer picture of Canada's priorities and actions. This view was strongly reiterated in my meeting with Canadian civil society in October 2006, following the Annual Meetings of the International Monetary Fund (IMF) and World Bank. Given this feedback, combined with reactions from parliamentarians, the 2006 report has been recast with three goals in mind:

1. To improve the accountability of the Department of Finance in managing Canada's relationship with the IMF and World Bank.
2. To make Canada's policy objectives with respect to these institutions clearer, which in turn will make it easier to measure success.
3. To have Canada continue to push the frontiers of disclosure, without violating Canada's requirement to respect the confidentiality policies of these institutions.

The 2006 report focuses more clearly on Canada's policy objectives in relations with the Bretton Woods institutions, which can be summarized as:

1. Improving governance and accountability.
2. Reforming the IMF to strengthen the international financial system.
3. Improving aid effectiveness.
4. Promoting sustainable development.

It is my hope that this report will provide parliamentarians and all Canadians with a better understanding of the important role that Canada is playing in making the IMF and World Bank more effective and more accountable institutions.

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance

The Bretton Woods Institutions—Mandates and Operations

The World Bank and the International Monetary Fund (IMF) were founded at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, in 1944 to promote recovery from the Second World War and to establish the basis for a stable world economic and financial system. Together they are informally known as the Bretton Woods institutions.

International Monetary Fund

The IMF's mandate is to promote international monetary cooperation, exchange rate stability and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment. Since the IMF was established, this mandate of promoting global economic and financial stability has remained unchanged but its operations—which involve surveillance, financial assistance and technical assistance—have evolved to meet the changing needs of its member countries in a constantly shifting global economy.

Surveillance of national and global economic developments is the IMF's main tool for assessing risks to global economic and financial stability. The IMF's main surveillance activities are undertaken on a country-by-country basis, under Article IV of the institution's Articles of Agreement. Through its Article IV consultations, the IMF seeks to identify policy strengths and weaknesses and to provide advice on appropriate corrective measures, if needed. In its 2006 fiscal year[1], the IMF conducted 131 Article IV country consultations. Recognizing the importance of regional linkages, the IMF has been putting more emphasis on regional contexts and possible regional spillovers from national economic policies. In 2006, the IMF undertook policy discussions on four currency unions, including with the Eastern Caribbean Currency Union.

The main instruments of the IMF's global surveillance are its semi-annual *World Economic Outlook* and *Global Financial Stability Report*. In 2006, the focus of the IMF's global surveillance was on the risks posed by global imbalances, high oil prices, and rising interest rates in developed countries. At the initiative of the Managing Director, the IMF broadened its approach to global surveillance by hosting a special conference for policy makers from systemically important countries and selected academics that discussed strategies to tackle global imbalances.

In March 2006, the IMF Executive Board assessed the IMF's Independent Evaluation Office (IEO) review of the institution's multilateral surveillance. While the review was largely positive, the IEO did identify areas for improvement. In particular, the IEO recommended that the surveillance reports should be less descriptive and more analytical.

How the IMF Works

The IMF works like a credit union. Although it has only limited resources of its own, it has access to a large pool of liquid assets, or resources provided by its members, comprising convertible national currencies, special drawing rights (SDRs) and other widely used international currencies, which it makes available to help members finance temporary balance of payments problems. When requested to do so, members provide resources to the IMF in amounts determined by "quotas" reflecting each country's relative economic weight in the world economy. A country's quota in turn helps determine the amount of Fund resources that it may use should it experience economic difficulties. At the end of July 2006, the total quota for the Fund's 184 members stood at SDR 213.5 billion.

1 The IMF's fiscal year runs from May 1 to April 30.

Special Drawing Right (SDR)

The SDR is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account at both the IMF and the World Bank. Its value is based on a basket of key international currencies consisting of the euro, Japanese yen, pound sterling and US dollar. Canada has reserves of SDR 533.4 million at the IMF, resulting in a quota of SDR 6,369.2 million. At December 29, 2006, the Canadian dollar exchanged with the SDR at a rate of 1.753080 C$ per SDR.

A member country will seek an IMF financial program in response to a serious balance of payments or fiscal problem. In these cases, the IMF will provide financing to allow a country to purchase needed imports, repay external borrowing or bolster its foreign exchange reserves. A country obtains access to the general resources of the IMF by purchasing (drawing) other members' currencies with an equivalent amount of its own currency. It repays the IMF by repurchasing its own currency with other members' currencies over a specified period of time, with interest. In this way, a member country borrows from other members, with the IMF as an intermediary. A member, such as Canada, that provides the resources lent to the country facing balance of payments difficulties receives a competitive rate of interest on the resources it has provided.

A member requesting financial assistance reaches an agreement with the IMF staff on a set of economic measures and reforms aimed at removing the underlying source of the country's balance of payments difficulty. The details of this integrated economic program and the amount and duration of financing are then approved by the IMF's Executive Board, which consists of representatives appointed or elected by the IMF's member countries. Typically, IMF financial assistance is provided in stages, or "tranches," with the release of each tranche accompanied by verification that the country is continuing to follow the agreed economic program, and is meeting agreed policy conditions.

Depending on the prospective size and duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts one to two years, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility, created in December 1997. Members affected by a natural disaster or emerging from a conflict can also access Fund facilities on an expedited basis.

Over the past several years, the IMF has developed new instruments to strengthen its support to low-income countries. These include the Policy Support Instrument (PSI), which is a non-lending instrument that is available to members that do not need or want IMF financial assistance, but voluntarily request IMF endorsement and continued assessment of their policies. Canada was a strong advocate of the development of this instrument, which was introduced in late 2005. To date, Nigeria, Uganda and Cape Verde have benefited from the PSI.

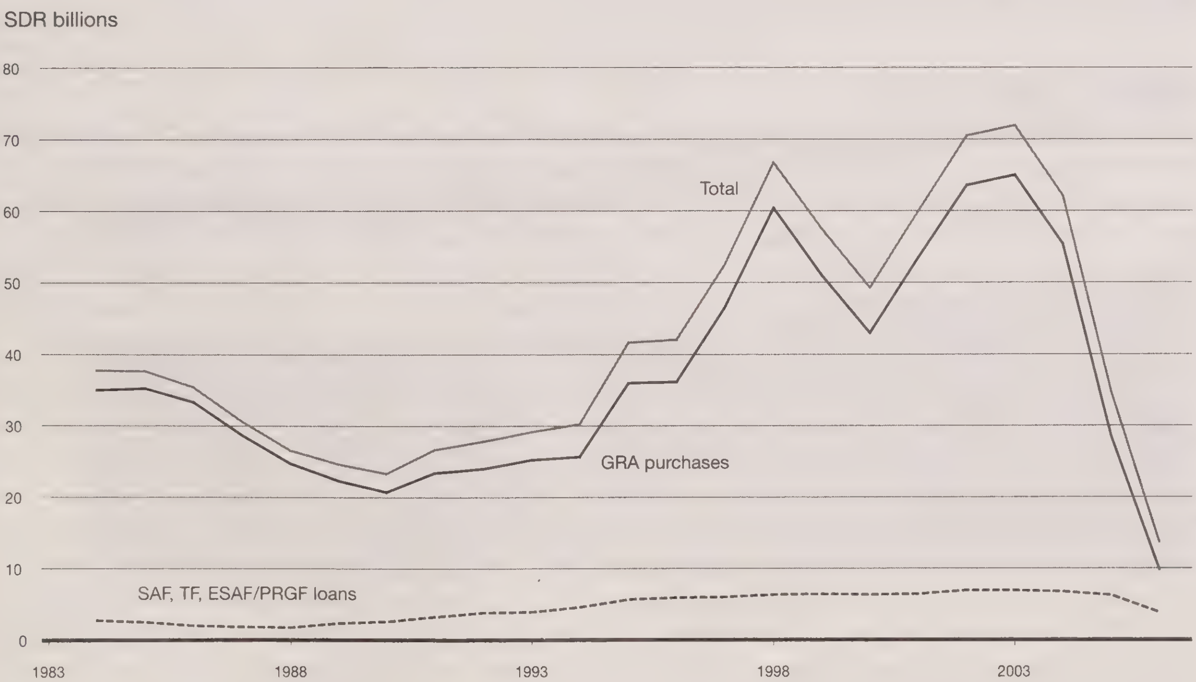
As well, below-market-rate (concessional) financing to low-income developing countries under the Poverty Reduction and Growth Facility (PRGF) is made available in the form of low-interest loans with extended repayment periods. A new instrument in the PRGF, the Exogenous Shocks Facility (ESF), provides timely concessional support to low-income countries that are facing a balance of payments problem due to exogenous shocks, such as a spike in energy prices or a significant deterioration in terms of trade.

Regular Financing Activities

The generally benign global economic and financial environment has led to less demand for borrowing from the IMF in recent years, as fewer countries need its assistance in responding to balance of payments or other economic difficulties. Indeed, many countries that had borrowed during the previous periods of difficulty have been able to repay the IMF ahead of schedule. During fiscal year (FY) 2006, repayments on loans increased sharply to SDR 32.8 billion. Chart 1 illustrates this trend. Many countries repaid all of their General Resource Account obligations to the IMF, SDR 21.9 billion of which was repaid ahead of schedule by Algeria, Argentina, Brazil, Bulgaria and Uruguay. Disbursements during the year were relatively low—totalling SDR 2.2 billion—the bulk of which was disbursed to Turkey under its Stand-By Arrangement. In addition, emergency post-conflict assistance disbursements totalling SDR 17.2 million were made to the Central African Republic and Haiti. Reflecting the high level of net repayments, IMF credit outstanding at the end of FY2006 stood at SDR 19.2 billion, a 25-year low, compared with SDR 49.9 billion a year earlier.

As a result of loan repayments, the IMF's liquidity rose to a record SDR 120.1 billion at the end of FY2006, as measured by the Fund's one-year forward commitment capacity.

Chart 1
IMF Credit Outstanding for All Members



Note: GRA = General Resource Account; SAF = Structural Adjustment Facility; TF = Transfer Fund; ESAF = Enhanced Structural Adjustment Facility; PRGF = Poverty Reduction and Growth Facility.
Source: www.imf.org/external/fin.htm.

Concessional Financing

The IMF provides loans with subsidized interest rates to its poorest members through the Poverty Reduction and Growth Facility (PRGF). The Executive Board approved seven new PRGF arrangements during FY2006 totalling SDR 107.9 million. As of the end of FY2006, total loan resources available for PRGF-ESF operations amounted to SDR 15.8 billion, of which SDR 12.9 billion had already been committed to borrowing members. The IMF invests assets supporting the PRGF lending and the Heavily Indebted Poor Countries (HIPC) Initiative in a diversified portfolio of fixed-income securities issued by governments and international financial institutions. As of April 30, the value of these assets declined from SDR 9.6 billion in FY2005 to SDR 7.4 billion in FY2006, primarily owing to the early repayment of PRGF-ESF Trust lenders in connection with the Multilateral Debt Relief Initiative (MDRI). Annual return on the portfolio was 2.8 per cent in FY2006, up from 2.1 per cent in FY2005.

As of the end of FY2006, nine member countries pledged contributions totalling SDR 219 million to the ESF. Total disbursements of HIPC assistance by the IMF amounted to SDR 1.6 billion at the end of FY2006, and the IMF delivered debt relief totalling SDR 2.5 billion to 20 qualifying countries under the MDRI.

As of the end of FY2006, 17 member countries had pledged contributions totalling SDR 40.3 million for the subsidization of emergency assistance. In FY2006, two countries made purchases under emergency post-conflict assistance: Haiti (SDR 10.2 million) and the Central African Republic (SDR 7.0 million).

Technical Assistance

Technical assistance is another important IMF instrument to assist member countries. The IMF offers technical assistance in its core areas of expertise such as macroeconomic policy, tax and revenue administration, public expenditure management, monetary policy, exchange systems, financial sector reform, and statistical capacity building. In 2006, the IMF provided more than 429 person-years[2] of technical assistance, roughly three-quarters of which was directed to low- and lower-middle-income countries. The IMF took a number of steps during the year to improve the management and delivery of its technical assistance to strengthen country ownership and to better align technical assistance priorities with its surveillance function.

Operational highlights and key financial indicators for the IMF are shown in Annex 5.

World Bank Group

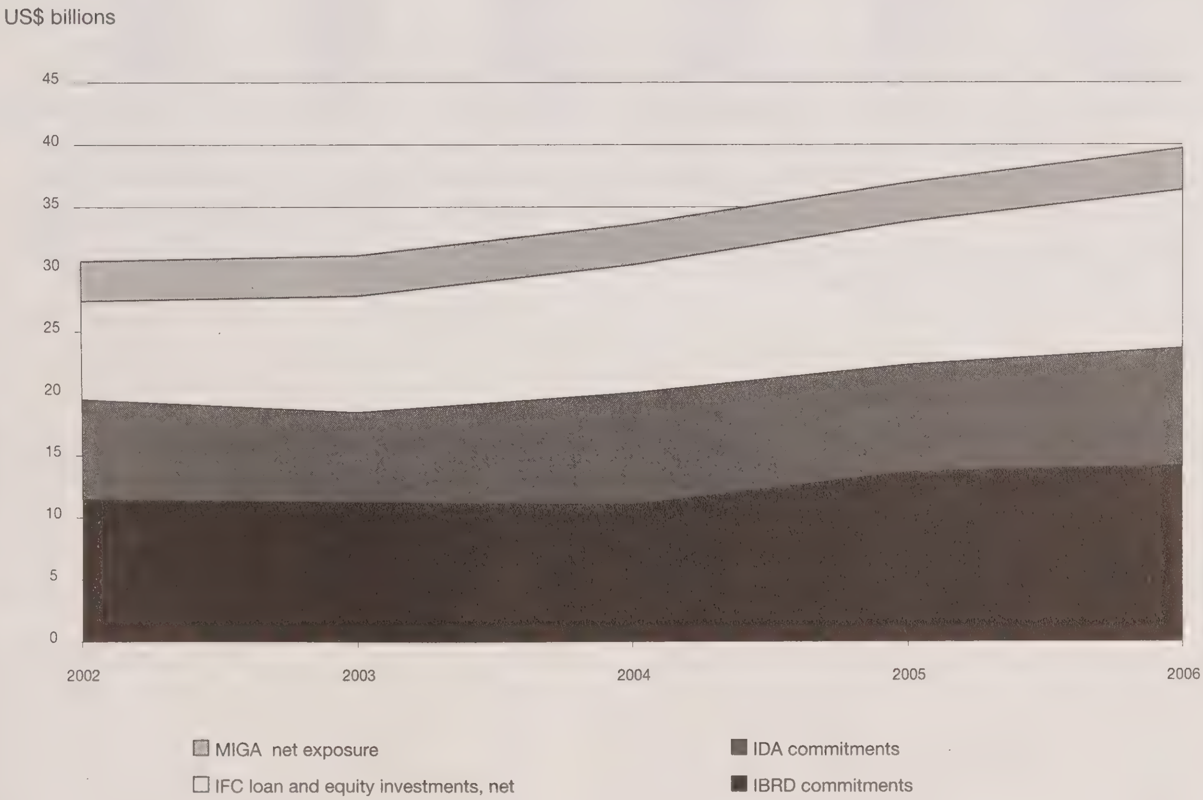
The World Bank Group is made up of five complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). Each institution plays a different but reinforcing role in promoting global poverty reduction.

[2] One person-year equals 260 working days.

The World Bank's broad mission is to reduce global poverty. The Bank's work focuses on achievement of the Millennium Development Goals, which set concrete targets for the elimination of poverty and sustained development. The goals provide the Bank and other donors with common targets and yardsticks for measuring results. The Bank's mission is to help developing countries and their people reach these goals by working with partners to alleviate poverty. To do that, the Bank concentrates on building the climate for investment, jobs and sustainable growth so that economies will grow, and by investing in poor people and empowering them to participate in development.

Overall, World Bank Group activities have expanded in the last five years. The trend in activities by institution is shown in Chart 2. World Bank Group activities by region are shown in Table 1. IDA lending is focused on low-income countries, while the IBRD, IFC and MIGA focus on middle-income countries and on private sector development. This different focus translates into a greater proportion of activities in Europe and Central Asia and in Latin America and the Caribbean than in Africa or South Asia.

Chart 2
World Bank Group Activities
by Fiscal Year Ending June 30



The International Bank for Reconstruction and Development and the International Development Association

The IBRD and IDA (together commonly known as the World Bank) provide funding for investments in education, health, infrastructure, communications and many other areas. The IBRD lends on non-concessional terms to better-off borrowing members, while IDA provides 35- and 40-year interest-free credits and grants to the poorest members. IDA is the largest source of development finance for the world's poorest countries. The IBRD raises its funds primarily on international markets on the strength of its triple-A credit rating, and lends at an interest rate that is slightly above its borrowing costs. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than the rate they could secure on their own borrowings. IDA, on the other hand, is financed through donor contributions, loan repayments and annual allocations from the IBRD and, in FY2006[3], IFC net income.

Combined IBRD-IDA lending increased by 5.7 per cent from US$22.3 billion in FY2005 to US$23.6 billion in FY2006. IDA reached its target of 50 per cent lending in Africa in FY2006, up from 45 per cent in FY2005. Combined IBRD-IDA lending in Europe was stable compared to FY2005 and increased in all regions except for South Asia, where lending in FY2005 was high due to the tsunami on the Indian Ocean. The largest increases in combined IBRD-IDA lending were in Africa, followed by Latin America and the Caribbean.

Combined IBRD-IDA lending by theme and region is summarized in Chart 3. Compared to FY2005, the two largest thematic increases in lending in FY2006 were for financial and private sector development and public sector governance, reflecting an increased focus on fostering a climate for investment. Lending in these areas increased from 29 per cent of total IBRD-IDA lending in FY2005 to 42 per cent in FY2006. By region, their proportion of total lending in FY2006 was 41 per cent for Africa, 32 per cent for East Asia and Pacific, 30 per cent for South Asia, 51 per cent for Europe and Central Asia, 44 per cent for Latin America and the Caribbean, and 67 per cent for the Middle East and North Africa.

[3] The World Bank's fiscal year runs from July 1 to June 30.

Chart 3
World Bank Commitments by Theme and Region in the 2006 Fiscal Year

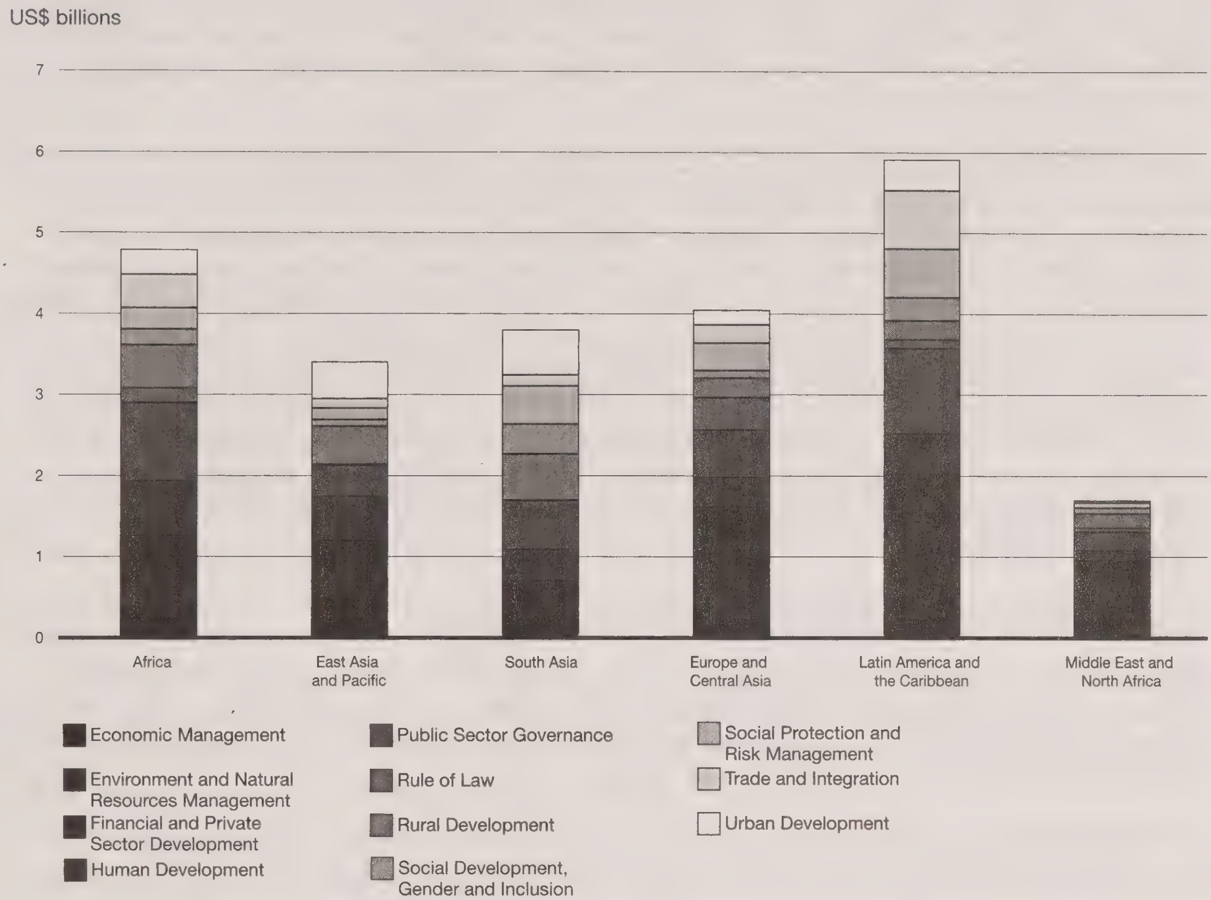


Table 1
World Bank Group Lending Activities by Region in FY2006

Region	IBRD FY2006 Commitments	IDA FY2006 Commitments	Combined IBRD-IDA	IFC Own Account Commitments as of FY2006	MIGA Net Exposure[1]
			(per cent)		
Sub-Saharan Africa	<1	50	20	9	19
East Asia and Pacific	17	11	14	15	16[2]
South Asia	9	27	16	8	
Europe and Central Asia	25	5	17	30	35
Latin America and the Caribbean	40	3	25	29	22
Middle East and North Africa	9	4	7	7	8

1 Net exposure is maximum aggregate liability less reinsurance.

2 Includes South Asia.

Operational highlights and key financial indicators for World Bank Group associations are shown in Annex 5.

The International Finance Corporation

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises in developing countries. The IFC provides services such as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 30, 2006, the total committed loan and equity portfolio for the IFC's own account was equivalent to US$21.6 billion.

In FY2006, investment commitments for the IFC's own account totalled US$6.7 billion for 284 projects in the developing world, compared to US$6.5 billion in FY2005. The IFC is ahead of schedule on its three-year plan launched in FY2005 to triple investment commitments over three years. The IFC's expansion is consistent with Canadian priorities for the institution, mainly an increased focus on frontier markets and investments in the private sector that facilitate a transition towards autonomy and sustainable economic activity. In FY2006, activities in areas of high developmental impact, such as investment in low-income or high-risk countries and regions, exceeded US$1.5 billion compared to US$1.3 billion for FY2005. Investment commitments in Sub-Saharan Africa increased almost 57 per cent from FY2005 to US$700 million. Commitments in small and medium-sized enterprises tripled over the last three years to reach US$1.6 billion in FY2006. In addition, the IFC increased investments in infrastructure and in private health and education by over 50 per cent in FY2006.

The Multilateral Investment Guarantee Agency

MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding portfolio as of June 2006 amounted to US$5.4 billion (including reinsurance).

In FY2006, MIGA issued 66 guarantees totalling US$1.32 billion for 41 projects, compared to US$1.2 billion in FY2005 (including reinsurance). These included 23 projects in frontier markets (US$481 million), which represented 37 per cent of MIGA's portfolio for the year. There were 10 projects in conflict-affected countries (US$165 million), and 14 infrastructure projects ($469 million). By region, 13 projects were in Sub-Saharan Africa, 13 in Latin America and the Caribbean, 6 in Europe and Central Asia, 6 in East Asia and Pacific and 3 in the Middle East and North Africa. The FY2006 increase in frontier markets reflected MIGA's strategic focus on the sector. MIGA's portfolio composition changed with continued efforts to increase the involvement of investors from developing countries, a decrease in support for financial sector projects, and slightly increased coverage for projects in oil, mining and gas.

International Centre for Settlement of Investment Disputes

ICSID provides facilities for the conciliation and arbitration of investment disputes between member countries and private investors. Canada is not currently a member of ICSID as it requires both federal and provincial implementing legislation, and to date not all provinces have introduced the appropriate legislation. However, both the federal government and all of the provinces have now indicated a willingness to introduce legislation, and so in 2006 Canada signed its convention with the hopes of ratification in the next year. This will provide Canadian investors with an additional mechanism for the resolution of investment disputes pursued under international arbitration.

The World Bank Plays an Important Role in Supporting Global Programs

The International Development Association (IDA) is one of the largest sources of assistance for developing countries, providing around US$7 billion–US$9 billion a year in interest-free credits and grants.

While IDA's expertise lies in providing assistance at the country level, there has been a growing movement in the international community to also tackle major development challenges at a global or regional level. To this end, a considerable number of global programs have been established in the last few years, working alongside the World Bank's country assistance programs.

The World Bank plays an important role in supporting these initiatives, acting as a financier, administrator or participant in 125 global programs and 50 regional programs. Together, these programs disbursed US$3 billion in donor funding in 2006.

Financier—The World Bank has become by far the largest financial trustee for these programs, managing a stock of funds totalling more than US$6 billion at the end of June 2006.

Administrator—Fifty-eight global programs are managed by and housed within the World Bank.

Participant—The World Bank's Development Grant Facility, with an annual budget of US$176 million, provides direct grant support for global programs. Support is also provided through regular country assistance operations and sector-specific work.

Global programs operate in a number of sectors, including health and environment and agriculture. Canada has provided considerable support to a number of these programs over the years.

Selected Sectors	Examples of Global Programs	Canadian Contributions
Health	Global Fund to Fight AIDS, Tuberculosis and Malaria	$550 million since 2000
	Stop TB Partnership	$200 million since 2001
	GAVI Alliance	$200 million since 2000
	Global Polio Eradication Initiative	$207million since 1988
Environment	Global Environment Facility	$40 million per year
Agriculture	Consultative Group on International Agricultural Research	$17 million per year

Canadian Policy Priorities at the Bretton Woods Institutions

The IMF and the World Bank are important partners for advancing Canada's own foreign and development policy interests and promoting Canadian core values of freedom, democracy and the rule of law. Participation in these important global organizations has several benefits. It extends Canada's reach and influence throughout the world by providing Canada a strong voice as a member and leading donor in these institutions.

Canadian Policy Priorities

The Government of Canada has four key priorities in its relations with the IMF and World Bank:

1. Improving governance and accountability

Canada has long been an advocate for strengthening governance and accountability at the IMF and World Bank. Both account for their performance to their members through the Boards of Governors, the Executive Boards and various committees of the Boards. They also report on their performance to members and the global public via annual reports. In our dialogue with the Fund and Bank, Canada sends a consistent and clear message to both of these institutions that they must continue to strengthen governance and accountability, both in their internal operations and in member countries.

The Bretton Woods Institutions Score High Marks for Accountability

The 2006 Global Accountability Index prepared by One World Trust, a non-governmental organization based in the United Kingdom, underscores the progress that the IMF and World Bank have made in enhancing its accountability mechanisms relative to other international organizations in the not-for-profit and private sectors. The index assessed 10 intergovernmental organizations (IGOs), including the IMF and World Bank, 10 international non-governmental organizations (INGOs) and 10 multinational enterprises (MNEs) in 4 accountability assessment categories: transparency, participation, evaluation, and complaint and response.

The World Bank emerged as one of only 3 IGOs to score above 50 per cent in 3 out of the 4 accountability assessment categories. In comparison, only 2 out of 10 INGOs and 2 out of 10 MNEs achieved the same result. Consequently, the World Bank placed ahead of Amnesty International, WWF International, Oxfam International and 5 other INGOs with respect to organizational accountability. The World Bank Group's accountability practices also placed ahead of those of leading MNEs such as Toyota Motor Corporation, Dow Chemical Company and Microsoft Corporation.

On average, IGOs fared best in the category of transparency. The IMF and World Bank were identified as 2 of only 9 international organizations that had implemented the index's benchmark of an organization-wide information disclosure policy (IDP). In contrast, only 2 out of 10 INGOs had implemented an IDP.

The Bretton Woods Institutions Score High Marks for Accountability *(cont'd)*

While the index reported generally poor performance from IGOs, particularly relative to the MNEs in the category of complaint and response, the World Bank Group's Inspection Panel was singled out as the exception. With the exception of World Vision International, the other 9 INGOs surveyed did not provide any high-level guidance to staff to handle complaints from affected communities.

With the exception of shortcomings in incorporating external stakeholders in high-level decision making, the IMF and World Bank were also distinguished from other transnational organizations in the private and not-for-profit sector in evaluation. The World Bank scored higher than all but one INGO and all MNEs, and the IMF scored higher than 7 of 10 INGOs and 9 of 10 MNEs.

The Fund and the World Bank scored lowest in participation, largely due to governance structures that give developing members less voting power.

In future reports, we will continue to monitor this index as well as other independent evaluations to assess improvements in the accountability of the Bretton Woods institutions.

The 2006 Global Accountability Index report is available at www.oneworldtrust.org.

2. Reforming the IMF to Strengthen the International Financial System

The IMF remains the central institution charged with fostering international financial stability. Its mission—to promote global prosperity and financial stability—remains as valid today as ever and its three broad lines of activity—surveillance, financial assistance and technical assistance—represent the best channels through which it can achieve its objectives.

However, over the past decade, it has become increasingly clear that in order to effectively and credibly fulfill its mission, the Fund must adjust to meet the rapidly evolving challenges of the international financial system. The IMF has been criticized for its policy advice, governance structure, economic surveillance and lending activities. Some key emerging market economies are highly under-represented at the institution relative to their global economic weight, while many poorer and smaller members have seen their relative voting power eroded over time.

Canada Is Leading IMF Reform

- Canada has led the drive to reform the IMF, working with the Group of Seven (G7) and Group of Twenty (G20) Finance Ministers to secure agreement on a two-stage reform process. The first-stage reforms, which consisted of quota increases for the four most under-represented emerging market economies (China, the Republic of Korea, Mexico and Turkey) as well as additional resources for African Executive Directors at the IMF, were approved by IMF Governors on the eve of the IMF/World Bank Annual Meetings in September 2006.
- Canada has continued to work within the G7 and G20 to build consensus for a broader second-stage package of reforms, including a quota formula fit for globalization that better reflects member countries' global economic weight, increased basic votes and strengthened IMF surveillance, which should be agreed to no later than the IMF/World Bank 2008 Annual Meetings. Given vastly diverging interests of IMF members, this will not be an easy task.
- Canada's leadership role on IMF reform was explicitly recognized at the February 2007 G7 Finance Ministers Meeting in Essen, Germany.

3. Improving Aid Effectiveness

Improving the effectiveness of aid delivery and better focusing assistance where it can best contribute to poverty alleviation is key to development progress. Within the World Bank, the goal of improving aid effectiveness has translated into practical aid policies that target financing to those countries that have demonstrated an ability to channel funding effectively to development.

However, mandates of the international organizations often overlap, leading to a duplication of efforts. This is exacerbated by inadequate coordination of effort, high transaction costs for countries and a reduction in the development impact of international organizations. The Paris Declaration on Aid Effectiveness has brought this issue to the top of the development agenda (more information on the Paris Declaration can be found on the Organisation for Economic Co-operation and Development website at www.oecd.org).

For its part, Canada continues to push all of the international organizations to improve their effectiveness through increased selectivity, clear priority setting, planning and managing for results, coordination and harmonization among development partners, responsiveness to client country priorities and efficient service delivery.

4. Promoting Sustainable Development

In 1987, the United Nations World Commission on Environment and Development published *Our Common Future*, a report that defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Canada recognizes that only sustainable development can relieve poverty, create equitable standards of living, satisfy the basic needs of all peoples, and produce sustainable economic development in the long run, and that the Bretton Woods institutions have an important role to play in achieving this end.

Canada's Focus in 2006

1. Improving Governance and Accountability

Strengthening Sanctions for Corrupt Practices

The **World Bank** is a leader among international institutions in resources committed to fighting fraud and corruption. Since 1996, anti-corruption activities have been integral components of the Bank's lending and technical assistance operations. Annual anti-corruption action plans have helped to increasingly mainstream anti-corruption in the Bank's internal procedures, as well as in its country strategies, country dialogue and assistance.

Increasing Accountability Through Evaluation

The Independent Evaluation Group (IEG)

The IEG is an independent unit within the World Bank. It reports directly to the Bank's Executive Board. IEG assesses what works and what does not, how a borrower plans to run and maintain a project, and the lasting contribution of the Bank to a country's overall development. The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank's work and to provide accountability in the achievement of its objectives.

Quality Assurance Group (QAG)

QAG is an internal unit reporting to Bank management. QAG's primary objective is to promote increased accountability by providing staff and managers with feedback on operational performance, identifying systemic issues affecting operational performance and identifying and highlighting skills and resources needed to ensure high-quality work.

Department of Institutional Integrity (INT)

The INT at the World Bank is mandated by the World Bank Group to investigate allegations of fraud and corruption in Bank Group operations as well as allegations of staff misconduct. The INT reports its findings to senior management, who in turn decide what measures should be taken. In addition, the INT assists in preventative efforts to protect Bank Group funds, and those funds entrusted to it, from misuse and to deter fraud and corruption in its operations. The work of an investigative unit aids the World Bank in ensuring that funds are used for their intended purposes, thereby contributing to the organization's core mission of promoting development and reducing poverty.

The Independent Evaluation Office (IEO)

The IEO at the IMF provides objective and independent evaluations on issues related to the IMF that are presented to the Executive Board. The IEO operates independently of IMF management and at arm's length from the IMF's Executive Board. It periodically assesses different IMF priority areas, for example, how the IMF gives advice on such issues as exchange rate and capital account policies, or more generally, how it structures its lending program conditionality.

The Bank does not conduct business with individuals and firms involved in corrupt practices. Over the past two fiscal years, 58 firms and 54 individuals have been debarred from receiving Bank contracts because of their involvement in corruption (338 since 1999). At the start of 2007, 144 firms and individuals were ineligible from benefiting from contracts under World Bank-financed projects. In 2006, Canada supported the World Bank's moves to strengthen its sanctions and voluntary disclosure policies in order to improve transparency at the Bank itself, use sanctions (i.e. debarment) for fraudulent practices, ensure safe channels for whistle-blowers, and provide more objective and transparent methods for assessing and mitigating corruption. Canada will continue to use its voice at the Bank to ensure the transparent and equitable application of these policies and will encourage all multilateral development banks to use common, consistent, and transparent criteria to examine possible misconduct.

When There Is a Problem

The **Compliance Advisor Ombudsman (CAO)** is an independent office that reports directly to the President of the World Bank Group regarding IFC and MIGA projects. The CAO does not intervene in Executive Board or project processes but has the independence to make recommendations that will be helpful in resolving disputes. The reports and recommendations of the CAO are public. Ultimately, the Office of the President is responsible for implementation of these recommendations. Controversial Canadian projects that have been evaluated by the CAO in 2006 include the Guatemalan Marlin mine owned by Canadian company Glamis Gold and the Dikilushi copper-silver mine in the Democratic Republic of Congo. Full reports on CAO recommendations on these and other cases can be found at www.cao-ombudsman.org.

The **Inspection Panel** was established in 1993 to address the concerns of people who may be affected by Bank projects and to ensure that the Bank adheres to its operational policies and procedures during design, preparation and implementation phases of projects. The Inspection Panel consists of three members who are appointed by the Executive Board for non-renewable periods of five years. Members are selected on the basis of their ability to deal thoroughly and fairly with the requests brought to them, their integrity and independence from Bank management, and their exposure to developmental issues and living conditions in developing countries. More information on the Inspection Panel and specific concerns before it can be found at www.worldbank.org/inspectionpanel.

Economic Governance

The **IMF** promotes good economic governance through enhanced surveillance; the promulgation of standards and codes of good practice in the fiscal, monetary and statistical areas; the provision of technical assistance to strengthen institutional capacity; and specific measures to address particular instances of poor governance. As at the World Bank, the IMF stresses the importance of country ownership of policies for improving governance. The IMF requires transparency and accountability in the management of public funds. Where poor governance affects macroeconomic performance, and particularly where it raises questions on whether Fund financing will be used effectively, IMF program conditions require members to improve governance and combat corruption in specific ways. The IMF has also strengthened policies to safeguard the use of IMF resources with regard to misreporting of information to the IMF. These measures have led to inquiries directed at central bank actions in a number of member countries.

To improve governance and accountability, Canada and other members have advocated the need to introduce a transparent, merit-based process for selecting the heads of multilateral institutions. Canada has worked within the IMF, World Bank, and international groupings such as the G7, G8 and G20 to advance this goal.

Governance and Anti-Corruption Strategy

In response to concerns raised by Canada and other members on the need to raise the profile of governance, including anti-corruption, over the past year, the World Bank has continued to make significant efforts to mainstream this issue into its own development agenda in a coherent, fair and effective manner. Its governance and anti-corruption strategy aims to establish a deeper engagement with partner countries and bilateral donors on governance and anti-corruption issues through a more rigorous treatment of these issues in Country Assistance Strategies. In February 2006, the World Bank and the IMF, together with the regional development banks, renewed their focus on combating corruption and formed a task force to develop the Institutional Framework for Preventing and Combating Fraud and Corruption. This framework was presented at the September 2006 Annual Meetings of the World Bank Group and the IMF.

Under its governance and anti-corruption strategy, the Bank is committed to: (1) intensify its work on capacity building, including public financial management, procurement and civil service reform; (2) ensure that governance concerns are integrated into the preparation of its projects and that, where the risk of corruption is high, its supervision, detection and enforcement are strengthened; (3) strengthen bilateral and multilateral partnerships to promote coordinated donor action; and (4) intensify engagement with the private sector in tackling corruption. The World Bank conducted extensive consultations on this framework in late 2006, including with the Canadian government, parliamentarians and civil society, with the aim of presenting a refined strategy to Governors at the spring meetings in 2007.

Canada recognizes that the World Bank has made good progress in understanding and addressing the challenges that weak governance and corrupt practices pose for the development process. However, Canada continues to press for further improvements in a number of areas:

- Policies governing World Bank involvement in countries where corruption is a problem must be clear, transparent, and consistent across the membership.
- Significant changes in country eligibility for World Bank Group assistance must be subject to Executive Board oversight.
- The Bank needs a clear "results framework," which can provide the basis for an independent evaluation of the effectiveness of its governance strategy over the next few years.
- The international community must be engaged in the fight against corruption. This means that international institutions and shareholder governments must ensure that their own operations also consistently meet high standards of integrity.
- One challenge for the Bank over the next several years will be to develop initiatives that build on the momentum associated with the United Nations Convention against Corruption in order to bridge the gap that currently exists between development and anti-corruption activities.

Budget Reform

Canada has been at the forefront of calling for reform to the World Bank and IMF's administrative budget and strategy development. The budget process needs to be better informed by a concise articulation of the institutions' broad strategies and expected key outcomes in the medium to long term. This strategic outlook should be consistent with both institutions' core competencies and comparative advantages and should take into account client demand and lending trends. We have also called for a clear statement of priorities that includes a discussion of how these priorities will further each of these institutions' strategies and competencies.

Last year, the Bank began a process to ensure that strategic direction, as established by the Executive Board, is considered as part of the budget cycle. Over the past several years, the IMF has demonstrated its commitment to follow best international practices for internal governance and to ensure the most effective use of resources. In 2006, the Fund developed a new output-based medium-term budgetary framework; reformed its employment, compensation and benefits framework; began to evaluate options for putting the Fund's income on a sounder financial footing; and set up a task force to review the Fund's risk management.

Transparency

Canada is among the most active members in urging the institutions to embrace greater transparency and adopt open disclosure policies. Originally institutions that shared few of the details of their deliberations and operations with the public, the Fund and Bank have recently expanded the materials that they disclose, to the point where they are among the most open of international institutions.

At the IMF, the policy for most kinds of documents is one of "presumed publication." In 2006, for example, 85 per cent of IMF Article IV surveillance reports were published (a step which requires the consent of the country concerned), while about 70 per cent of IMF policy documents were published. Publication of a policy paper that has been discussed by the Executive Board is typically accompanied by publication of a summary of Executive Directors' views during the discussion. The IMF recently published its second annual report on the implementation of its transparency policy, which provides factual information on publication rates by type of document, lags between Executive Board discussion and publication, recourse to deletion and publication behaviour of member countries.

The World Bank has made considerable progress toward greater transparency by increasing the amount of its documentation made available to the public. Like the IMF, the Bank releases minutes of its Executive Board meetings. However, in the interests of promoting candid and effective discussion at the Board, neither institution releases transcripts of the meetings or attributes remarks to individual Executive Directors by name. Canada supports this policy.

2. Reforming the IMF to Strengthen the International Financial System

Over the past year, Canada has taken a leadership role on the important issue of reforming the governance and operations of the IMF. Canada was instrumental in building support among IMF members for a two-stage approach to reform. Canada's efforts within the IMF, and G7 and G20 groups of Finance Ministers, helped secure agreement among member countries on the first-stage reforms on the eve of the IMF/World Bank Annual Meetings in September 2006. IMF Governors agreed to provide a quota increase for the four most under-represented emerging market countries (China, the Republic of Korea, Mexico and Turkey) as well as additional resources for the two African Executive Directors' Offices at the IMF. Governors also set the target of achieving agreement on a broader range of second-stage reforms, including the revision of the IMF's formula for determining member quotas, an increase in the level of basic votes[4] and the possible introduction of a new lending instrument, no later than their Annual Meeting in the fall of 2008.

Quotas determine the amounts that countries can borrow from the Fund in cases of balance of payments or budgetary problems and the resources that countries in good financial health can be asked to provide the Fund to help other members. They are also the major factor determining countries' voting power at the Fund. Proper alignment of quotas with countries' economic and financial weight in the global economy is essential to the Fund's legitimacy as an international institution. Legitimacy, in turn, is key to ensuring that the Fund can serve as an appropriate forum for members and that the Fund's policy advice is heeded.

Given that there will be winners and losers in any realignment of IMF quotas, and given that quota reform requires ratification by countries representing 85 per cent of the Fund's voting power, securing agreement on quota reform will prove challenging. Canada is a strong advocate of a formula fit for globalization—a transparent quota formula that more clearly recognizes a country's degree of global economic integration and global economic weight.

The IMF's legitimacy and effectiveness also require a stronger voice for low-income countries. Accordingly, Canada supports at least a doubling of basic votes and an amendment to the IMF Articles of Agreement that will introduce a mechanism to safeguard the share of basic votes in total voting power against erosion in the future. Canada is also sensitive to the special challenges facing the offices of the two African Executive Directors at the IMF, who each represent constituencies of more than 20 countries. We strongly supported the first-stage initiative to increase resources for their Offices to improve their ability to represent African countries in the institution, many of which are involved in IMF lending and technical assistance programs.

Strengthening Surveillance

Canada supports a strong and effective surveillance function at the IMF as the key element of its mandate to foster global financial stability. The IMF's surveillance function is established in Article IV of its Articles of Agreement, which charge the institution with promoting the stability of the international system. The aim of IMF surveillance is to maintain a constructive dialogue with

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[4] When the Bretton Woods institutions were founded in 1945, members recognized the need for economic weight to be the predominant determinant of voting power. However, 11 per cent of voting power was distributed equally among all members (these shares are referred to as "basic votes") to recognize the principal of equality of states. Over time the share of basic votes has fallen from 11 per cent at both institutions to 2.1 per cent at the IMF and 2.8 per cent at the World Bank.

members aimed at helping them identify and pursue policies that support their economic growth and prosperity, and in particular avoid macroeconomic or exchange rate policies that have negative spillover effects on the global economy. Canada experienced the benefit of IMF expertise first-hand in the early 1990s, with their candid assessment of our economic challenges. We believe that other countries can also benefit from such an approach.

Given the emerging market crises of the 1990s and the current scale of global imbalances (current account disparities, savings and investment mismatches and concerns that foreign reserve accumulation by some emerging markets has been excessive), in recent years the IMF has strived to strengthen and revitalize its surveillance. Indeed, a key element of the IMF's Medium-Term Strategy is to improve the Fund's analytic understanding of economic developments in individual member and the global economy, the candour of its assessments of its members' policies, and the persuasiveness of Fund policy advice.

In 2006, the IMF introduced special multilateral consultations on global imbalances with key participants in the global economy, while the Executive Board is considering ways of increasing the objectivity and effectiveness of bilateral Article IV surveillance. Some important progress has been made, reflecting a consensus among the membership on the importance of the IMF's surveillance function. However, some differences of opinion remain among members over whether the IMF can be more effective through an approach that emphasizes compliance by all countries with the existing international consensus on sound policies, or through an approach whereby the IMF quietly encourages members to pursue better policies through dialogue and by adopting a role of "trusted advisor." Canada will continue to push for stronger surveillance of monetary, fiscal, financial sector and exchange rate policies, with greater attention to the spillover effects of these policies on the global economy. In our view, this should be reflected in a revised framework governing the implementation of surveillance.

Strengthening IMF Finances

Canada believes that a strong IMF is critical to ensure long-term global financial stability. Financial conditions in emerging markets have improved considerably over the last five years, and affordable access to international capital has reduced many emerging market countries' reliance on Fund resources. Since the IMF finances its administrative expenditures through a margin between the interest rate at which it borrows and the interest rate at which it lends, the recent decline of lending combined with the early debt repayment by major borrowers has reduced Fund income to historically low levels. The IMF is facing an income shortfall and will run a budget deficit for FY2007 of about SDR 69 million, with increasing deficits expected in the following three years (up to about SDR 245 million in FY2010).

The Fund's low credit environment is expected to persist over the medium term. In response, the Managing Director formed an independent Committee of Eminent Persons to study the Fund's financing model and provide recommendations for mitigating the expected shortfalls in annual income. The committee's report, which was released on January 31, 2007, identified several options to strengthen income, including a more aggressive investment strategy and the sale of a portion of the IMF's holdings of gold. These options will be studied by Fund staff and debated at the Executive Board throughout the coming year.

3. Improving Aid Effectiveness

Improving IMF/World Bank Collaboration

Canada continues to promote increased collaboration between the World Bank and IMF in several key areas.

- Increased collaboration in situations where one institution has an active program while the other does not, but could still provide valuable policy advice. In particular, we urge the Bank to ensure that the Fund be engaged when country dialogue focuses on macroeconomic issues, including in countries in which the IMF does not have an active program. In cases such as these, we are less concerned with overlaps in Bank and Fund programs as with the risk of significant gaps where neither institution is effective.
- The Bank's comparative advantage on poverty reduction issues has led to the inclusion of its Poverty and Social Impact Analyses (PSIAs) in IMF-supported programs in low-income countries under the Poverty Reduction and Growth Facility (PRGF). The effectiveness of PRGF arrangements has been significantly improved by the incorporation of information from the PSIAs. We would like to see this practice extended to other areas of IMF work, such as Article IV surveillance exercises. In this area, poor governance clearly undermines many developing countries' macroeconomic outlook. We would therefore support increased consideration of governance issues as part of the policy discussions of Article IV documents. As well, with the increased focus on financial sector reform in Fund surveillance exercises, it will be critical to incorporate the Bank's considerable expertise in this area to ensure effective surveillance.
- Both institutions need to ensure that administrative burdens "on the ground" are minimized. They should also be sensitive to social and political developments and support the use of joint missions and a division of labour that minimizes the unnecessary duplication of work and the time spent negotiating Bank and Fund programs.
- Both the Bank and Fund need to closely collaborate to enhance their commitment to promoting global implementation of international standards to combat money laundering and terrorist financing.

In March 2006, the Managing Director of the IMF and the President of the World Bank commissioned a six-member External Review Committee to examine areas of World Bank/Fund collaboration and propose improvements. The committee is scheduled to complete its report in early 2007.

More Focused Conditionality

Canada supports more focused conditionality at both institutions. The IMF and World Bank have both conducted conditionality reviews in the recent past. These reviews were initiated in response to concerns that the scope and complexity of conditionality were undermining country ownership of their programs and weakening the effectiveness of reform efforts. While these reviews have led to improvements in the design of loan conditionality, particularly with respect to supporting national policy priorities elaborated in Poverty Reduction Strategy Papers (PRSPs), more can be done to ensure conditionality reinforces PRSP objectives.

Canada supports the IMF's efforts to strengthen the effectiveness of its lending programs by streamlining and better focusing conditionality to foster stronger country ownership. In recent programs, the Fund has focused its conditionality on tax policy, public expenditure management and financial sector strengthening, and has reduced the number of conditions related to social sectors, public enterprise reform and the business environment, given that these areas are beyond the Fund's mandate and expertise.

Canada supports the shift at the Bank from ex ante conditionality that links the drawdown of funds to future performance to an ex post approach linking drawdowns to past performance. This is consistent with the stress that Canada places on the need for greater accountability and a stronger results focus. Similar to the IMF, the Bank is increasing the focus of its conditionality in its areas of expertise—public expenditure management, governance, regulatory framework strengthening and the legal sector.

The type of lending also has an impact on conditionality—investment loans have few policy conditions while development policy loans, by their nature, tend to have more. In November 2006, the World Bank presented a progress report on the implementation of good practice principles for the application of conditionality, which reinforce the importance of country ownership, harmonization, customization, criticality, transparency and predictability. The review concluded that there has been some progress in ensuring that the Bank's conditionality policies adhere to these good practice principles though it recognized that greater progress is possible.

At both institutions, there has also been a significant decline in specific conditionality related to the privatization of state enterprises over the last decade, in favour of conditionality focused on improving regulatory environments.

Overall, these efforts have been constructive. However, it is important to recognize that these institutions cannot dispense with conditionality entirely. At the IMF, conditionality is still needed to address the underlying causes of economic crises. And at the Bank, strong financial controls are clearly needed to minimize the risk of funds being misappropriated due to weak governance. However, even where conditions are necessary, country ownership and commitment are critical. Indeed, our long-term goal is to build capacity in these countries and strengthen their internal systems. This is the best way to ensure that conditionality is kept at a minimum.

Building Statistical Capacity

Recognizing that strong statistical systems are essential for accountability, evidence-based policy development and the assessment of aid effectiveness, Canada has consistently advocated that the Bretton Woods institutions focus more on building statistical capacity in developing and emerging market countries. Statistics are needed to form policy and measure results; to conduct research and shed empirical light on evolving issues; to aid in public understanding and decision making; and to foster informed debate on events shaping and touching everyone. For developed countries, good statistics are also important to assess the need for development assistance and the measurement of achievements resulting from such assistance, including the achievement of the Millennium Development Goals (MDGs).

IDA's Results framework

To ensure that IDA resources are used effectively, the fourteenth replenishment of IDA (IDA14) introduced a two-tiered results measurement system (RMS) to track progress in "big picture" outcomes at the country level and to monitor IDA's efforts to produce better results. The IDA14 RMS interactive website reports on the RMS indicators, provides access to country and regional data and supports quick charting and mapping tools. www.worldbank.org/data.

While many IDA countries are making progress in development, most are not likely to meet some MDGs, particularly those relating to human development. More systematic monitoring of IDA countries' progress has brought two problems to the fore: data gaps in critical areas such as infrastructure, and the enormous effort, resources and cultural change that are required to build country capacity to collect reliable statistics on a regular basis. Statistical capacity is an area of recognized Canadian expertise and excellence. High-quality national statistics are an important public good for national governments and donor agencies because they support better evidence-based decision making and strengthen the PRSP process and the results agenda.

The World Bank's Country Statistical Information Database confirms that the statistical capacity of many low-income countries requires significant strengthening. The World Bank has developed a number of instruments to help address this shortcoming. The Trust Fund for Statistical Capacity Building supports the implementation of national strategies for the development of statistics. Early in 2007, the Canadian International Development Agency approved a contribution of $6 million to support the Bank's work in this area.

4. Promoting Sustainable Development

Debt

Canada is strongly committed to reducing the debt burdens of the most heavily indebted poor countries to sustainable levels. Our participation in both bilateral and multilateral debt relief initiatives has helped recipient countries redirect freed-up resources to poverty reduction initiatives to improve the lives of their citizens and reach their long-term development goals.

To reduce the external debt burdens of the world's poorest countries, Canada delivers debt relief through three initiatives:

- The Heavily Indebted Poor Countries (HIPC) Initiative: Launched in 1996, the HIPC Initiative was the first debt reduction strategy that included both bilateral and multilateral debt cancellation with an aim to reduce the debt burdens of eligible countries to sustainable levels.
- The Canadian Debt Initiative (CDI): Implemented in 1999 and updated in 2001, the CDI increases the bilateral debt relief provided through the HIPC Initiative to 100 per cent. Countries in the HIPC process receive 100 per cent debt cancellation on their debt payments and, once they complete the HIPC Initiative, Canada cancels 100 per cent of the remaining debts.
- The Multilateral Debt Relief Initiative (MDRI): Implemented in 2006, the MDRI (formerly the G8 Debt Relief Proposal) cancels 100 per cent of eligible debts owed to the IMF, IDA and the African Development Fund by countries that have completed the HIPC Initiative.

The G7, IMF and World Bank have all provided significant debt relief. Canada has been at the forefront by cancelling over $1 billion in bilateral debt of HIPCs since 2000 (see Table 2).

Table 2
Total Canadian Debt Relief to HIPCs Through the CDI, Paris Club and HIPC Initiative January 1, 2000 to December 31, 2005

(C$ millions)

Completion Point Countries

Country	Total Debt Relief to Date[4]	Outstanding Debt to Canada
Benin	0.4	0
Bolivia	11.1	0
Cameroon[1]	454.3	0
Ethiopia	0.4	0
Ghana	19.1	0
Guyana	3.1	0
Honduras	26.2	0
Madagascar	35.7	0
Rwanda	4.6	0
Senegal	5.4	0
Tanzania	80.1	0
Zambia	94.3	0
Subtotal	**734.7**	**0**

Reforming Countries in the Interim Period

Country	Total Debt Relief to Date	Outstanding Debt to Canada
Congo, Dem. Rep. of	78.0	46.8
Congo, Republic of[2]	25.1	43.1
Haiti	0.0	2.3
Subtotal	**103.2**	**92.2**

Pre-Decision Point Countries Excluded From the CDI

Country	Total Debt Relief to Date	Outstanding Debt to Canada
Côte d'Ivoire[3]	128.5	145.5
Sudan	0.0	10.8
Subtotal	128.5	156.3
Total	**966.4**	**248.5**

[1] Debt relief for Cameroon includes relief granted in 2006.

[2] Debt relief for the Republic of Congo is from a Paris Club "Naples treatment." It is not receiving CDI debt relief due to poor public financial management.

[3] Debt relief for the Côte d'Ivoire is composed of Paris Club relief under the original HIPC framework as well as previous and subsequent Paris Club debt treatments. It does not include relief under the enhanced HIPC framework or the CDI.

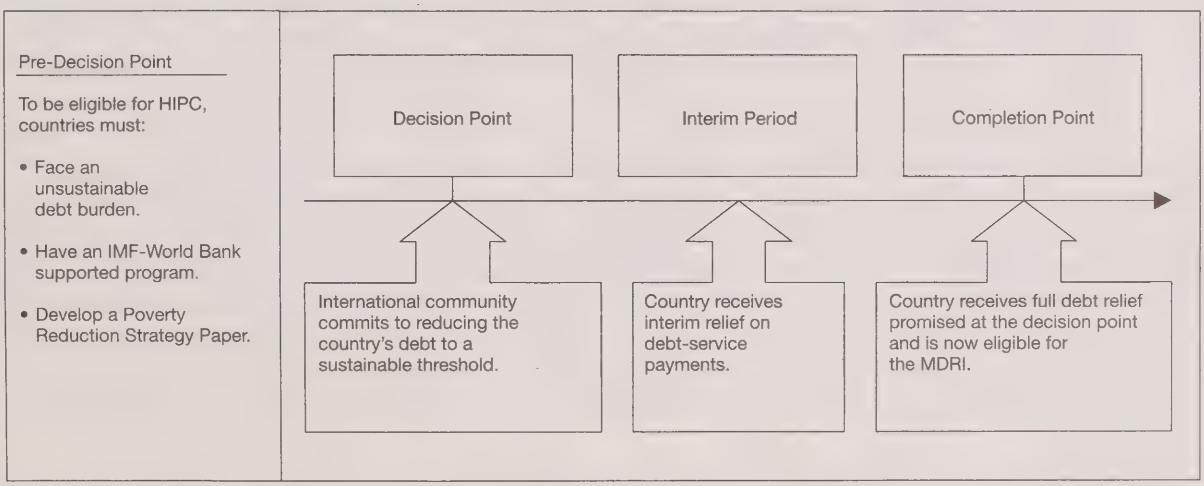
[4] Debt relief figures include amounts due in 2000 that were not written off until after the end of 2000.

In April 2006, Cameroon graduated from the HIPC process, at which time Canada forgave all of its remaining debt ($221 million). In total, Canada has forgiven $454 million of debt owed by Cameroon since 2000. Haiti's recent progress in economic and political stability facilitated its entrance into the HIPC process in November 2006, and it will receive 100 per cent debt cancellation from Canada once the process is completed. Finally, in December 2006, Sierra Leone graduated from the HIPC process.

Côte d'Ivoire, the Republic of Congo and Sudan still have debts with Canada. Once these countries show a committment to good governance and once Côte d'Ivoire and Sudan have entered the HIPC process, Canada will cancel their debt-service payments and, ultimately, all debts owed to Canada.

To reduce debt levels to a sustainable level, the HIPC Initiative requires bilateral creditors to forgive up to 90 per cent of the eligible bilateral debts owed by HIPCs. The World Bank and IMF also deliver debt relief through the HIPC process, and donor countries provide resources to these institutions to help them do so. To date, Canada has provided $281.4 million to the HIPC Trust Fund, which is managed by the World Bank, and $65 million to the IMF for HIPC debt relief.

Chart 4
The HIPC Initiative Timeline



MDRI Implementation

The Multilateral Debt Relief Initiative (MDRI) provides even deeper debt relief to HIPC graduates, cancelling debts owed to IDA, the IMF and the African Development Fund. This debt relief helps the world's poorest countries reach the United Nations Millennium Development Goals, as the freed-up resources previously used to service large debts can be redirected to investments that contribute to poverty reduction.

In 2006, Canada paid $16.6 million to the IMF in fulfillment of our obligations under the MDRI. In January 2007, Canada made its first payments of $10.4 million to the African Development Bank and $35.3 million to IDA.

Environment

Sustainable development cannot be achieved without making great progress in ensuring sustainable environments. Canada's support for sustainable environment initiatives at the Bretton Woods institutions has been reinforced by our participation in the G8 process. At the 2005 Gleneagles Summit, Canada, along with the other G8 leaders, called on the World Bank and regional development banks to develop an investment framework for clean energy and sustainable development in developing and emerging markets. The framework is intended to be a vehicle to accelerate investment to meet energy demands associated with growth and poverty alleviation in an environmentally sustainable way. The World Bank released a progress report on this framework, which outlines the key elements of a strategic work program at the 2006 Annual Meetings.

Canada endorses framework as a potential approach to addressing the interconnected areas of energy access, mitigation and adaptation. In line with our strong ties to the Caribbean through our constituencies at the Bretton Woods institutions, Canada strongly supports the Bank's plan to expand analytical work to develop screening tools to assess the nature of climate risks to development projects, build the capacity of institutions and communities to better cope with the risk of natural disasters, and support the development of new and more innovative risk management tools.

Global Environment Facility

Negotiations for the fourth replenishment of the Global Environment Facility (GEF) concluded at the end of August 2006, with donors agreeing to a US$3.1-billion replenishment, the largest replenishment in GEF history. Canada maintained its 4.3-per-cent share of donor contributions to the GEF replenishment, agreeing to provide the equivalent of C$158.9 million over four years.

The World Bank is an implementing agency of the GEF, which supports the implementation of the United Nations conventions on biodiversity, climate change, persistent organic pollutants, land degradation and ozone depletion in developing countries, in addition to addressing international waters issues. Since its creation, the GEF has become the single largest source of funding for global environmental issues. In 2005, results of an external evaluation of the GEF concluded that the facility has achieved significant positive environmental benefits in the areas of biodiversity, climate change, international waters and ozone depletion. Canada's contribution to the GEF accounts for about 25 per cent of the Canadian International Development Agency's total spending on the environment.

Natural Disaster Risk Reduction and Post-Disaster Recovery

The World Bank finances reconstruction following natural disasters in middle-income and poor countries. In 2006, the Bank's Independent Evaluation Group (IEG) assessed the Bank's post-disaster assistance portfolio. The IEG recommended that the Bank help countries better prepare for and mitigate future disasters that can negatively affect long-term development by supporting disaster risk reduction (the spectrum of activities from preparedness to reconstruction that limit the impact of disasters on human populations). In response, the Bank set up the Global Facility for Disaster Reduction and Recovery, a new partnership with the United Nations to support the integration of disaster risk reduction into the development plans of highly vulnerable disaster-prone countries. The facility aims to "disaster proof" the Millennium Development Goals (MDGs). Canada commends the Bank for evaluating its disaster assistance portfolio and supporting countries in proactively protecting their long-term development projects by mainstreaming disaster risk reduction into their planning.

In 2006, the World Bank established a pilot Caribbean Catastrophe Risk Insurance Facility to provide risk insurance against natural disasters for the small Caribbean countries, including countries in Canada's IMF-World Bank constituency. Canada will be the largest donor to this facility, which should be up and running for the 2007 hurricane season.

Private Sector Development

Canada has been a long-standing advocate of the need for the Bretton Woods institutions to support private sector development, including by strengthening legal, regulatory and trade policies to improve investment climates and by engaging with private sector partners. The International Finance Corporation (IFC), the private sector arm of the World Bank Group, is a key institution in this regard. Its role is to promote economic development by encouraging private investment, both foreign and domestic, in developing member countries. It is widely acknowledged that strong private sector involvement in development efforts is necessary in order to mobilize sufficient financing to meet the Millennium Development Goals (MDGs). The IFC is well placed to play an important role in facilitating private sector investment in MDG-related sectors throughout the developing world.

The IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. The IFC finances and provides advice for private sector ventures and projects in developing countries in partnership with private investors and, through its advisory work, helps governments create conditions that stimulate the flow of both domestic and foreign private savings and investment. It focuses on promoting economic development by encouraging the growth of productive enterprise and efficient capital markets in its member countries.

Canada has consistently stressed the need for the IFC to focus its activities on the World Bank Group's core mandate of poverty reduction and to expand its operations in poor countries. In 2006, the IFC substantially increased its efforts in tracking the development results of its projects. A new system launched in FY2006 enables the IFC to systematically monitor results throughout the project cycle and to better assess overall development impact. Development outcome is rated on a six-point scale and is based on four underlying performance indicators: financial, economic, environmental and social, and private sector development impact. Preliminary results show that financially well-performing projects have the highest development impact either through their environmental and social benefits or as a result of private sector development.

The IFC has increased its focus in frontier countries, many of which are among the poorest in the world. However, it could do a much better job in expanding its operations and strengthening the development impact of its operations in these countries. Going forward, it plans to increase its technical assistance and advisory services in order to improve the development outcome of its projects.

International Finance Corporation Adoption of New Performance Standards

To ensure that its environmental and social standards remain relevant to a rapidly evolving marketplace, the IFC undertook an integrated review process to update its Safeguard Policies, Policy on Disclosure of Information, and Environmental Health and Safety Guidelines. The review involved a broad consultation process with stakeholders around the world, including governments, clients and partners, and representatives of civil society.

The outcome, approved by the Executive Board in February 2006, is a new policy framework for managing environmental and social risks as well as a new Disclosure Policy. New Sustainability Policy and Performance Standards outline the IFC's roles and responsibilities in ensuring project performance in partnership with its clients.

Canada was an active participant in the consultation process undertaken in the run-up to the adoption of these new policies and standards. Canada supports the direction that the IFC has taken in implementing project safeguards. However, there remain areas that could be strengthened and where Canada will continue to closely monitor the implementation of this policy.

- The new Performance Standards give more decision-making and oversight responsibility to the IFC, often in controversial areas. However, with this added responsibility will come greater accountability and the need for increased transparency to ensure that the IFC is fulfilling its role. Going forward, the IFC must be held to this higher level of accountability and transparency.
- The new Performance Standards also adopt a "cradle-to-grave" approach for businesses. This approach has the added possible benefit that it will instill the skills and expertise within the corporate culture of the IFC's partner companies, so that for future investments, performance standards are met, even without IFC involvement. This is a worthy goal, but it will mean added responsibility to ensure appropriate supervision in all of a project's aspects.
- It will be critical to closely monitor resettlement issues, particularly the treatment of informal settlers in countries where there is a lack of governance structures, such as judiciary and land registry systems.

Gender Equality as Smart Economics

Gender equality is an important crosscutting theme throughout Canada's development programming. Since gender issues remain an area where more work is needed, Canada is encouraged by the World Bank's renewed attention and efforts to advance women's economic empowerment to achieve growth, poverty reduction and meet the MDGs. We believe that the Bank has the potential to play a leading role in support of gender equality in the economic sectors. Canada has worked with the World Bank in recent years to plan for gender quality results and monitor their achievement across Bank programming.

At the 2006 Annual Meetings in Singapore, the World Bank Group President announced the four-year, US$24.5-million Gender Equality as Smart Economics—A World Bank Gender Action Plan to enhance women's economic power in key economic sectors in the developing world as a way to promote shared growth and accelerate progress towards gender equality and women's empowerment. To reinforce the importance Canada attaches to this work, the Canadian International Development Agency recently announced a C$1-million contribution to this action plan.

Canadian Constituency Voting Record at the IMF and World Bank

Since most decisions at the Fund and Bank are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of policy proposals before they are brought to the Board (through informal discussion with staff and management) or to influence other members of the Executive Board before or during the course of Board deliberations. In 2006, the Executive Director representing the constituency that includes Canada, Ireland and the Caribbean did not support the recommendations put forward by management on every issue put before the Board.

- In March 2006, the IMF Executive Board considered the issue of Zimbabwe's voting rights at the IMF and the withdrawal of eligibility to borrow from the IMF. The suspension of voting rights and eligibility to borrow had occurred as a result of Zimbabwe's arrears to the IMF, reflecting non-payment of previous borrowing from the Fund. Canada's Executive Director did not support proposals to restore voting rights and borrowing eligibility, reflecting concern over Zimbabwe's continued destructive economic policies and lack of cooperation with the IMF and other members of the international community. The proposed decisions did not receive the required level of support at the Board and did not pass.
- In July 2006, the Republic of Congo requested a waiver on a condition of its Poverty Reduction and Growth Facility program with the Fund. The government had purchased several aircraft, financing the purchase at terms that failed to observe a continuous performance criterion on the contracting of medium- and long-term non-concessional debt. The Executive Director representing Canada abstained from the proposed decision, citing the aircraft financing as well as persistent shortcomings in state-owned enterprises.
- In June 2006, Canada's Executive Director at the World Bank abstained on two IFC investments, one in Stomana II in Bulgaria and the other in Industrial Union of Donbass in Ukraine, due to the policy concern of the expansion of permanent capacity in the global steel industry and the implications of oversupply.
- In August 2006, Canada's Executive Director opposed the IBRD/IFC proposal for a sub-national development program based on several key concerns regarding donor coordination, capacity building and the IBRD moving into an area better addressed through the IFC. The Executive Director requested an evaluation of the pilot at the end of its three-year timeframe, before a deeper and more sustained engagement with sub-nationals could be supported, particularly given the recognition that it is too early to evaluate the effectiveness of sub-national lending without sovereign guarantees.
- The Emergency Municipal Services Rehabilitation Project II in the West Bank and Gaza went to the Board in December 2006. Due to the possibility of indirect benefit for the Hamas-led Palestinian Authority, and Canada's legal and foreign policy position, the Executive Director representing Canada abstained on this project.

Managing Canada's Priorities at the Bretton Woods Institutions

Governance and Accountability

Canada is the eighth largest member of the IMF and the sixth largest shareholder at the World Bank. Membership in the two institutions gives Canada an important voice in the two leading international institutions devoted to promoting international financial stability and poverty reduction. Voting power at both institutions is mainly a function of the relative economic strength of individual members (which reflects their ability to contribute resources to the institutions). A small share of a member's voting power is also determined by "basic votes," which are distributed equally among all members in recognition of the equality of states. Canada's voting power is 2.9 per cent at the IMF and 2.78 per cent at the World Bank.

The IMF and World Bank are owned by their member countries, with their managements accountable to the membership. The Board of Governors, on which all member countries are represented, is the highest authority governing these institutions. The Minister of Finance is Canada's representative on the Board of Governors of both of these institutions. The Minister exercises influence at these institutions through his statements at the spring and fall meetings of the International Monetary and Financial Committee of the Board of Governors of the IMF, and Development Committee of the Boards of Governors of the World Bank and IMF; his plenary statement at the IMF and World Bank Annual Meetings; votes on various policy and administrative issues; and periodic meetings with the heads of the institutions.

Governors delegate decision making for a wide variety of day-to-day operations, policy and administrative matters to the 24-member Executive Board of each institution. Given that these Boards represent all of the institutions' 184 members, countries typically group themselves into constituencies, often with several countries represented by one Executive Director. On the Executive Boards of the two institutions, Canada is a member of a constituency that also includes Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. On the World Bank's Executive Board, Canada's constituency mirrors that of the IMF, but also includes Guyana. Governors representing the countries sharing our constituencies at these institutions elect Executive Directors every two years, usually based on a nomination made by the Canadian Governor. Mr. Jonathan Fried was elected to represent our constituency at the IMF in April 2006. Mr. Samy Watson was elected to represent our constituency at the World Bank in September 2006. The Minister of Finance and senior officials from the Department of Finance consult regularly with the Executive Directors on a range of IMF and World Bank issues.

Outreach Initiatives

In October 2006, the Minister of Finance met with civil society representatives to discuss their views on key issues involving the Bretton Woods institutions. As well, officials from the Department of Finance met with parliamentarians in October 2006 to brief them on Canada's relationship with the Caribbean within our constituencies at the Bretton Woods institutions. Officials also consulted with civil society on a broad range of issues, including the format and content of this report.

Over the course of a year, Canada's Executive Directors at the IMF and World Bank meet with a variety of stakeholders, including governmental and non-governmental organizations and those pursuing business opportunities at the respective institutions, who wish to discuss issues falling within the mandates of the institutions, or to exchange views on developments in member countries.

In 2006, visitors to the IMF Executive Director's Office, in addition to routine visits by government officials of Canada's constituency, included: individuals from the Global Organization of Parliamentarians Against Corruption to discuss the Fund's role in countering corruption; a number of non-governmental organizations, including Results-Résultats Canada, Trocaire (Ireland) and ActionAid (United States and United Kingdom) to discuss aid flows in low-income countries with Fund programs; and the Advisory Committee for the "Taking Responsibility" project—a Jamaican non-governmental organization established to discuss the economic development of Jamaica. In addition, the Executive Director's Office undertook a program of outreach to educational institutions, including presentations on the IMF to students from Queen's University and the National Defence Staff College.

In 2006, the World Bank Executive Director's Office met with members of the House of Commons Committee on Foreign Affairs and International Development, as well as representatives from Canadian and international civil society, including Results-Résultats Canada, Oxfam Canada, ActionAid International, the Halifax Initiative, Inclusion International, Gender Action, the Social Justice Committee of Montreal, the Bank Information Center, Environmental Defense, the Micronutrient Initiative and DATA, to discuss a variety of development policy issues. Representatives from Queen's University and the Commonwealth Secretariat also met with the Canadian Executive Director.

The Department of Finance coordinates Canadian policy advice on Fund and Bank policy issues and Canada's operational interests at these institutions. It consults closely with other government departments and agencies, particularly the Bank of Canada, the Canadian International Development Agency (CIDA) and the Department of Foreign Affairs and International Trade, which play a critical role. Bank of Canada Governor David Dodge is Canada's Alternate Governor at the IMF; and CIDA President Robert Greenhill is Canada's Alternate Governor at the World Bank. Finance officials testify before relevant committees of the Parliament of Canada and meet with representatives of Canadian non-governmental organizations on a regular basis.

Within the Department of Finance, the International Trade and Finance Branch is responsible for conducting analysis and preparing advice on the policy issues and specific country programs that are brought before the Executive Boards.

Members of the Executive Director's Office

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Membership Benefits

As a major trading nation, Canada benefits from a strong and stable global economy and international monetary system that facilitates the free movement of goods, services and capital. The IMF promotes international financial stability and economic growth through the provision of policy advice and financial and technical assistance to countries experiencing unsustainable external imbalances and related economic difficulties. As these demands are constantly shifting with the evolution of the international economy, Canada makes a difference by having a strong voice in the development of the international financial architecture. In particular, Canada influences how the Fund approaches crisis prevention and resolution, particularly through its surveillance activities and the design of its lending and poverty reduction facilities.

In turn, the IMF, through its surveillance of the Canadian economy, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance, the Bank of Canada and other government departments and agencies. If Canada were to experience severe balance of payments difficulties, it would have the right to draw on IMF financial assistance.

The 2006 annual Article IV consultations between the IMF and Canadian officials concluded in May, with the IMF staff and Executive Board concluding that Canada's strong macroeconomic framework supported another year of strong economic performance. Staff noted that the May 2006 budget contained welcome commitments to reduce public debt, contain expenditure growth and lower the tax burden, including through a number of tax cuts aimed at boosting incentives to work, save and invest. Consultations for the 2007 Article IV exercise concluded in January 2007, following the release of *The Economic and Fiscal Update*, and staff welcomed the Update's emphasis on fiscal prudence.

Preliminary Conclusions of the IMF Staff Assessment of the Canadian Economy and the Government of Canada's Economic Policies

1. ***The strong performance of the Canadian economy appears likely to continue, notwithstanding some recent slowing in growth***. Over the last year the economy has remained close to potential, as robust domestic demand has offset weakness in net exports from past currency appreciation, and the unemployment rate dipped to a 31-year low. Looking forward, resilient domestic demand and a diminution in the drag from the external sector—even in the face of the recent U.S. slowdown—will likely generate a recovery in growth to around 2¾ percent by mid-2007, broadly in line with potential, with inflation staying at about 2 percent.
2. ***External factors and the questions that surround productivity growth tilt risks to activity to the downside, while those related to inflation are smaller and more balanced.*** Although strong household and corporate balance sheets suggest that domestic demand could surprise on the upside, a larger-than-anticipated slowing of activity in the United States, especially in the auto sector that has particularly significant spillovers for Canada, represents a key downside risk to growth.
3. ***The Bank of Canada has adroitly balanced these competing risks, and has appropriately left rates on hold since May.*** While much will depend on incoming data, the current stance appears apposite given projections that headline and core inflation will remain around the middle of the target range, broadly symmetric inflation risks, approximately neutral real short-term interest

Preliminary Conclusions of the IMF Staff Assessment of the Canadian Economy and the Government of Canada's Economic Policies *(cont'd)*

rates, well-anchored inflation expectations, and moderate wage pressures. Given its success, we welcome the recent decision to leave the inflation targeting framework unchanged, albeit with somewhat greater flexibility regarding the inflation horizon, while at the same time continuing to explore the possibility of future improvements.

4. ***The financial sector is well positioned to cope with a turning of the global credit cycle.*** Bank profitability and capital are high by historical (and, for the latter, international) standards and risks from the housing market are more limited than in other cyclically-advanced countries. At the same time, against a backdrop of a rapidly transforming global financial industry, there could be scope to improve financial sector efficiency and innovation by reducing regulatory thresholds to bank restructuring, as well as by moving toward establishing a national securities regulator.
5. ***We welcome the Fiscal Update's focus on fiscal prudence.*** This includes planned debt reduction of C$3 billion a year, the intention to allocate unanticipated surpluses to further lower the debt burden, and the advancement of the commitment for reducing the federal debt ratio to 25 percent of GDP by a year to FY 2012–13. Given spending pressures that will begin to build from population aging, long-term fiscal sustainability requires a steady and significant decline in debt in coming decades, as well as further steps to contain the growth of public health spending. The new objective to eliminate general government net debt by 2021 appropriately highlights the joint role of public pension plans and provincial—territorial governments in achieving a sustainable fiscal position, and could be usefully complemented by publishing a regular assessment of the long-term fiscal outlook.
6. ***The government's intention to lower the tax burden is appropriate.*** The modest fiscal space after planned debt reduction would most usefully be used for growth enhancing cuts in personal and (in particular) corporate marginal effective tax rates. We welcome the government's commitment to using interest savings from debt reduction to lower personal income taxes and its objective of achieving the lowest marginal effective tax rate on new investment in the G-7. Marginal income tax rates are high by international standards, suggesting that reductions in this area would provide larger efficiency gains than further cuts to the Goods and Services Tax (GST). Indeed, with population aging implying a steady lowering in the ratio of workers to the overall population, there is a case for increasing the role of consumption taxes in the overall revenue effort.
7. ***The reforms suggested by the O'Brien panel would appropriately make the equalization system more predictable.*** With differences in provincial fiscal capacity having widened as a result of the boom in world commodity prices, there is increasing urgency to return the program to a rules-based system and to avoid ad hoc bilateral arrangements. In particular, the suggestion to include resource revenues from all provinces in the standard for the calculation of equalization transfers is welcome.
8. ***With sound frameworks delivering macroeconomic stability, we welcome the focus on enhancing prosperity***. The theme of *Advantage Canada* is timely given modest investment by businesses in machinery and equipment and R&D, as well as a continuing productivity gap with the United States. We would particularly emphasize the value of initiatives to enhance the business environment. In addition to cutting high marginal effective tax rates on capital (including by promoting the harmonization of provincial sales taxes with the GST) and improving financial market intermediation, priorities could include phasing out restrictions to foreign direct investment, reducing the regulatory burden on firms, eliminating interprovincial barriers to trade in goods and labor mobility, and adapting the immigration system more fully to the needs of the economy.

Source: 2007 *Article IV Consultation with Canada—Preliminary Conclusions of the IMF Mission.* Canada's full Article IV report and the Executive Board's assessment can be found at www.imf.org.

Likewise, membership in the World Bank Group affords Canada an important voice on key development issues in one of the world's premiere multilateral development institutions. Through its engagement in the Bank, Canada's influence in developing countries can be leveraged beyond what can be achieved through bilateral programs. The Canadian International Development Agency leverages its own resources with those of the Bank through participation in a growing number of partnerships with, and in global programs led by, the Bank. Bank membership also provides the Canadian government with access to the institution's research and policy work, which enriches our own understanding of international development. Finally, the Bank provides significant procurement opportunities for Canadian companies and individuals.

Canadian Companies Benefit From World Bank Procurement

In FY2006, Canadian firms were awarded contracts worth more than US$38 million under Bank-financed contracts associated with investment lending. The experiences of two Canadian companies highlight the benefit this relationship with the World Bank can yield.

CPCS Transcom is a Canadian company that specializes in international transportation commercialization and privatization projects. It has completed over 700 projects in more than 60 countries. Clients include national governments, public transit authorities, private and state-owned transportation organizations, and mining companies. The company also assists the World Bank, the Canadian International Development Agency, the African, Asian, Caribbean and the Inter-American Development Banks, the International Civil Aviation Organization and the United Nations Development Programme. Current projects being financed by the World Bank Group include:

- Reform and privatization of the Nigerian Ports Authority.
- Transactions advisers for the concessioning of Tanzania Railways Corporation.
- Implementation of a concession structure for the Ghana Railway Company.
- Concessioning of the Nigerian Railway Corporation.
- Privatization of port services in Sierra Leone.
- Privatization of power generation and distribution companies in Nigeria.

Développement international Desjardins (DID) is a Canadian company that specializes in providing technical support and investment for the community finance sector in developing and emerging countries. DID currently provides substantial support to many cooperative and government partners in some 20 countries in Africa, Latin America, the Antilles, Asia, and Central and Eastern Europe. Two examples of World Bank-financed projects include:

- For almost three years, DID has supported 6 of the 12 federations of financial cooperatives in Mexico in their own efforts to assist their affiliated cooperatives, in order to strengthen their management and enable them to meet new legislative requirements. This initiative facilitates the development of sound, reliable institutions that meet universal standards of sound management.
- DID helped to establish SERFIR cooperatives in poor and marginalized areas with no prior access to a financial institution. DID's expertise, notably in the areas of technological solutions and the design of diversified financial services adapted to local realities, has helped SERFIR become an institution producing impressive financial and social results.

Financial Support

Table 3 summarizes Canada's quota at the IMF. Table 4 illustrates Canada's capital subscriptions and voting share at the IBRD, IFC and MIGA. It also highlights Canada's cumulative donor contributions to IDA.

Table 3

Canada's Financial Position at the IMF as of December 31, 2006

	2006	2005
	(SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars[1]	5,815.8	5388.9
Reserve position in the Fund[2]	553.4	980.3

[1] In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian-dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian-dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

[2] This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow and New Arrangements to Borrow. As the name suggests, Canada's reserve position in the Fund is part of Canada's official foreign exchange reserves.

Source: www.imf.org/external/fin.htm.

Table 4

Canada's Financial Position at the World Bank Group as of June 30, 2006

	IBRD[1]	IDA[1]	IFC[2]	MIGA[3]
		(US$ millions)		
Subscription	5,403.8	–	81.3	56.5
Amount paid in	334.9	6,220.0[4]	81.3	10.7
Amount callable	5,068.9	–	–	45.8
Subscription share (%)	2.85	4.44	3.44	3.00
Voting power (%)	2.78	2.82	3.39	2.51

[1] *The World Bank Annual Report 2006*.

[2] IFC 2006 annual report, *Increasing Impact—The Year in Review 2006*.

[3] MIGA, *2006 Annual Report*.

[4] This number represents Canada's cumulative contributions to IDA.

In addition to the resources provided through our membership at the IMF and World Bank, Canada is an important provider of donor funding for these institutions.

- In 2006, Canada contributed SDR 14.3 million to the IMF's Exogenous Shocks Facility (ESF). This facility was established in 2005 to provide timely concessional support to low-income members facing exogenous shocks. To date, no low-income member has requested support under the ESF.
- In 2006, Canada paid $16.6 million to the IMF in fulfillment of our obligations under the Multilateral Debt Relief Initiative (MDRI). Our first payments to IDA ($35.3 million) and the African Development Bank ($10.4 million) in support of the MDRI were made early in 2007.

- Canada provides core financial support to IDA. Donors pledge new funds to IDA as part of replenishment discussions that happen every three years. The fourteenth replenishment of IDA (IDA14) concluded in February 2005. In 2006, Canada made its second of three equal payments to IDA14 for $318 million.
- In addition to our traditional transfers to IDA, Canada also makes use of World Bank-administered Multi-Donor Trust Funds (MDTFs). MDTFs have been established in a number of post-conflict situations in order to mobilize resources and coordinate reconstruction efforts. Examples of Canadian contributions to World Bank-administered MDTFs in 2006 include $78.5 million to Afghanistan and $40 million to Sudan. In 2006, Canada provided a total of $146 million to World Bank Trust Funds.

World Bank Group Transactions in Canada or in Canadian Currency

The World Bank Group undertook one C$12–million bond issuance in Canada in 2006.

Looking Ahead

Despite a very successful year in which progress was made on a variety of Canadian policy priorities, challenges remain. This section presents the key areas where the Canadian government will be looking for progress over the coming year.

IMF Reform

As mentioned in the section "Canadian Policy Priorities at the Bretton Woods Institutions," the IMF faces a number of challenges due to the changing international economy (e.g. changes in the nature of capital markets and in the relative positions of national economies) that threaten its legitimacy and effectiveness. Over the next two years, IMF management and membership will focus on finding innovative and workable solutions to improve member representation, strengthen surveillance and ensure its lending instruments are best tailored to member needs, especially those of emerging market economies. Given the divergent interests, balancing the views of members will be very difficult.

Quotas, Voice and Representation

Recognizing the fundamental importance of an agreement on an IMF reform package to the legitimacy and future effectiveness of the IMF, in the second stage of IMF reform, Canada will work closely with its partners in the IMF and with the G7 and G20 Finance Ministers to ensure the IMF's governance structure reflects the relative economic weight of the institution's membership. We anticipate that quota reform will form an important element of a wider package of second-stage reforms that will also include adjustments to the level of basic votes and the possible introduction of a new lending instrument. We cannot underestimate this challenge given differing member perspectives. Any move to increase basic votes at the Fund, which would benefit the poor and small members, would likely be replicated at the World Bank.

Strengthening Surveillance

Canada supports reforms to surveillance that focus Fund scrutiny on situations where members are pursuing policies with negative spillover effects on the world economy. The Fund must also have a surveillance framework that promotes objective and even-handed assessments of member policies,

allows the Fund to be a trusted advisor and promotes a high level of public transparency. The Fund is studying options to update the legal underpinnings (guidance and accountability frameworks) of surveillance, including the revision of its 1977 Decision on Surveillance over Exchange Rate Policies, to ensure they are more closely aligned with evolving practice in the global economy. It is also considering the possible implementation of a surveillance remit process that would provide better member guidance concerning surveillance priorities.

IMF Lending

The Fund must act to prevent crises, but be ready to step in with appropriate financing facilities when they occur. Emerging market economies have unprecedented access to financing in private international capital markets. However, stability risks remain, and the Fund has been studying ways to mitigate them. The answer may be a high-access precautionary lending instrument that emerging market members with sound policy frameworks can count on as a backstop for their international reserves. Canada supports reforms to Fund lending facilities that promote effective crisis prevention and resolution. However, given past difficulties in implementing facilities like the Contingent Credit Lines, it will be challenging to design a facility that provides reliable access to Fund resources while ensuring that Fund resources are protected. Moreover, the Fund will have to ensure that positive signals are sent to markets when members utilize or cancel high-access precautionary lending instruments.

Financing the IMF

Canada will be assessing the report by the Committee of Eminent Persons on the sustainable long-term financing of the Fund that was released in January 2007, and will work with its partners at the IMF and in other fora to ensure the IMF has a sustainable and equitable financing model going forward. While not part of the committee's mandate, work will obviously have to include an analysis of, and possible further cuts in, the Fund's expenditures.

IDA15 Replenishment

The fifteenth replenishment of IDA (IDA15) will begin in March 2007. In preparation for the replenishment cycle, Canada has flagged three key areas where we expect progress to be made.

1. Results Management and Development Effectiveness

We strongly believe that a continued emphasis on aid effectiveness and results management is necessary in order to maintain strong donor support for IDA. Clearly, the work that IDA has done to date in the development of a results measurement framework has the potential to become a very useful tool to evaluate aid effectiveness. Canadians want accountability for their aid spending to ensure that it is put to effective use. We are not alone in this respect. Many donors are under increasing pressure to demonstrate that aid dollars are being put to good use. In part, this will require a stronger focus on both qualitative and quantitative measures.

We strongly support IDA's efforts to monitor statistical capacity–building activities undertaken in IDA countries on an annual basis, and encourage further work in this area, including increased reporting on the quality and coverage of social sector statistics in all IDA countries. This kind of work will help all donors assess statistical needs and set out action plans to build and improve statistical capacity so that ultimately, countries can plan for and measure their own development results.

2. Failed and Fragile States

Canada is committed to addressing the problems of failed and fragile states. The top three beneficiaries of Canadian bilateral assistance (Afghanistan, Sudan and Haiti) fall in this category. Our efforts are supported by a growing international focus on how failed and fragile states can be reintegrated successfully into the global economy. Both the IMF and World Bank are important partners in working with these countries. However, we would like to see more analysis on the role that IDA can play in helping fragile states transition to a more stable position. In particular, we believe that the IDA15 replenishment process provides an opportunity to revisit IDA's assistance to these states, as well as how IDA can work with other development partners (the United Nations, regional development banks, donors and the countries themselves) to improve collaboration and the effectiveness of aid.

3. Debt Sustainability

Debt sustainability is an issue that warrants continued attention, particularly the importance of enhancing the debt management capacity of many IDA countries. Building debt management capacity and improving the quality of debt data will enable debtor countries to make informed decisions regarding the acquisition of new debt and their current and future ability to service such debt without undermining their long-term development goals. The World Bank, and the IMF can play a significant role in building debt management capacity in heavily indebted poor countries (HIPCs). This will be an important theme during the IDA15 replenishment.

Ending the "Lend-and-Forgive" Cycle

On December 31, 2006, the HIPC Initiative sunset clause took effect, which ensures that the remaining 10 eligible countries yet to enter the HIPC process can do so at their own pace. Before a country enters the HIPC process, its arrears to IDA, the IMF and the African Development Bank must be cleared. This will require substantial financial resources, both from the debtor and the donor community, and is a priority area of discussion. Liberia is of particular importance as it is likely to meet the conditions to clear its arrears soon.

Despite the significant reduction in beneficiary country debt stocks after the provision of HIPC and Multilateral Debt Relief Initiative (MDRI) debt relief, there is a risk that new lending and borrowing can lead to a rapid re-accumulation of unsustainable debt. The increased fiscal space of HIPCs in the post-MDRI environment, together with the growing financial presence of new creditors, heightens the need to ensure that new borrowing is conducted at a sustainable pace and does not undermine the long-term benefits of debt relief. To do so, Canada, along with other G7 leaders, are encouraging both creditors and debtors to adhere to the Debt Sustainability Framework, which lays out guidelines for acceptable and sustainable lending practices.

For more information on the IMF/World Bank

IMF

A vast array of IMF information—including fact sheets, international financial statistics, press releases, speeches, the *IMF Survey*, annual reports, world economic outlooks, staff country reports and working papers—is available on the Fund's website at www.imf.org.

Alternatively, requests for information can be addressed to:

International Monetary Fund
Publication Services
700 – 19th Street N.W.
Washington DC 20431, USA
Phone/fax: 202-623-7430/202-623-7201
publications@imf.org

World Bank

The World Bank releases considerable information on its various activities, including data and statistics (e.g. international trends, country-specific information), research materials (e.g. development policy, trends and issues), special reports (e.g. *World Development Report 2006: Equity and Development, Doing Business in 2006: Creating Jobs, World Development Indicators 2006*), press releases and annual reports by World Bank Group association and region. Information is available on the Bank's website at www.worldbank.org.

Alternatively, requests for information can be addressed to:

World Bank InfoShop
The World Bank
701 – 18th Street N.W.
Washington DC 20433, USA
Phone/fax: 202-458-4500/202-522-1500
pic@worldbank.org

Annex 1

Statements Prepared for the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

The Honourable Jim Flaherty, Minister of Finance for Canada,

on behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

Washington, DC
April 22, 2006

This meeting of the International Monetary and Financial Committee (IMFC) presents us with an historic opportunity to reinvigorate the International Monetary Fund (IMF) and empower it as the guardian of the market-based international monetary system. The Strategic Review of the Fund's role, launched by the Managing Director two years ago, stresses the importance of accountability and results. We have before us concrete suggestions to transform many aspects of the Fund's surveillance, lending and capacity building in order to strengthen its partnership with all of its members. We must also address questions of governance, including the under-representation of a number of systemically important emerging market economies. As IMF members, we must act to renew the Fund and imbue it with a culture of accountability and achievement and with a strong voice in resolving global imbalances.

Global Economy

This meeting occurs in the context of a strong global economy, with growth continuing to exceed expectations. This prosperity has continued in the face of challenges, particularly the surge in oil prices. That these price increases have thus far had only a transitory effect on inflation is a testament to the work of our central banks in creating and defending an environment of low and stable inflation. Going forward, we need to set the stage for continued economic stability, in part by ensuring that the global imbalances, which are unsustainable in the long run, are resolved in an orderly manner. The current favourable environment of strong global growth provides a good opportunity to work toward this objective.

Let me now briefly turn to economic developments in Canada, Ireland and the Caribbean countries. The Canadian economy remains strong. In 2005 real gross domestic product (GDP) increased 2.9 per cent, the same pace as in 2004, underpinned by healthy consumer spending and non-residential business investment. Well-anchored expectations are helping to keep consumer price inflation low and stable. Solid personal income gains and still-low interest rates, coupled with Canada's strong monetary and fiscal fundamentals, should continue to support Canadian growth in 2006 and 2007, with estimates of real GDP growth of about 3 per cent in both years.

Canada's fiscal situation remains solid. Canada was the only Group of Seven (G7) country to record a fiscal surplus in each of the past three years and is expected to remain the only G7 country to record a surplus in 2006 and 2007. The federal debt, as a percentage of GDP, has declined steadily from a peak of over 68 per cent in 1995–96 to under 39 per cent in 2004–05.

The Irish economy continues to prosper. Real GDP grew by 4.7 per cent in 2005, and growth at a broadly similar rate is expected in 2006. Domestic demand was the main impetus to growth in 2005, while there was some deterioration in the current external account. Construction and house building were particularly strong, while the volume of consumption rose by 5.6 per cent. In 2005 employment grew by more than 4 per cent, with much of the increase being accounted for by inward migration. With a buoyant economy and rising oil prices, inflation has risen in recent months, with the European Union harmonized index of consumer prices averaging 2.2 per cent in 2005 and rising to 2.7 per cent in February 2006. Despite record levels of housing supply, house prices continue to rise sharply and have even accelerated somewhat in recent months. On average, house prices rose by more than 9 per cent in 2005.

In line with the policy of maintaining broad fiscal balance, the General Government balance recorded a small surplus of 0.4 per cent of GDP in 2005, while a small deficit is envisaged this year. The General Government debt ratio has fallen to less than 28 per cent of GDP. With its consistently high growth rate, low unemployment and broad fiscal balance over many years, the Irish economy remains well placed to face the challenges of the globalized economy.

The economic recovery in the Caribbean which began in 2003 continued in 2005. Growth was observed in the construction, mining and tourism sectors even as agricultural output was interrupted in those countries hit by hurricanes in 2005. The devastating human and economic impact of the hurricanes continues to highlight the vulnerability of these countries to shocks. Inflation remained stable in most economies but fiscal outcomes did not improve as expected following declines in the effective oil tax rates of several countries. While there was some improvement in the primary balance of several countries, meaningful debt reduction was difficult to achieve as governments struggled with the financing of hurricane reconstruction and dealt with the consequences of rising oil prices.

The IMF continues to provide valuable assistance to the Caribbean countries that I represent, through increased policy dialogue and through Fund-supported programs in two countries. In this regard, Dominica's performance under the Poverty Reduction and Growth Facility has been exemplary, while Grenada has recently been approved to receive assistance under this facility. In other areas, the Caribbean moved with conviction to address other challenges by furthering structural reforms to improve their investment climate, strengthen competitiveness and enhance regional cooperation. Regarding regional cooperation, the first phase of the Caribbean Community Single Market and Economy came into effect in January 2006 with six countries signing and the remainder expected to sign by June 2006.

Revitalizing the IMF as Guardian of a Market-Based International Monetary System

The global financial and economic landscape has changed considerably over the last two decades, and our challenge is to forge a common view on the proper role of the IMF in a globalized international financial and monetary system. Canada, Ireland and the Caribbean reaffirm our support for a market-based international monetary system.

Among the most important developments in the global economy and international monetary system has been the enormous growth in recent years in private capital flows and the corresponding increase in cross-border holding of assets. Globalization has not only expanded consumption and investment opportunities, but has also allowed imbalances to grow and the scale of crises to increase. This has clear implications for the role of the Fund. First, it must approach its activities from the perspective

of enhancing the efficiency and stability of markets. Second, to better support this market-based international monetary system, it must strengthen its effectiveness in persuading countries not to pursue policies that undermine the prosperity of their neighbours or the stability of the system as a whole. National borders now have little meaning; at least in terms of economics and finance, we are truly living in a "global village."

A market-based international monetary system requires clear "rules of the game" and adherence to them by all countries. As the institution at the centre of the system, it is essential that the IMF has both the capacity and an unambiguous mandate to monitor key economic and financial trends and, through analytically strong and effectively communicated policy advice, to help countries, regions and the world mitigate vulnerabilities before they become serious risks to national and international prosperity. In sum, we have a common objective—global prosperity—which can be best achieved through multilateralism and cooperation.

In designing a strengthened IMF, we need to adopt a "can do" attitude with an eye to pragmatism and results. The Managing Director has set out a comprehensive plan of action to reinforce the IMF's position at the centre of the international monetary system. We welcome the proposals. In taking these forward, we should not lose sight of the fact that the IMF is most effective when it is most persuasive. And it will be most persuasive when it has at its disposal strong analytical resources, has the proper incentives for candour, and understands the importance of communicating its policy advice. The Fund should be straightforward in its public communications, particularly in cases where it believes that a country's policies undermine its own prosperity and that of its neighbours. And in its role as confidential policy advisor, it should not hesitate to deliver messages in the most frank and hard-hitting manner possible.

Members of my constituency consider two aspects of the Managing Director's reform agenda—governance and surveillance—to be particularly critical in breathing new life into the Fund and establishing a more valuable partnership between the Fund and its members.

On governance, concerns about the widening disparity between quota shares and the growing international economic weight of a number of emerging market members threaten to erode the legitimacy of the institution. We support action on this issue through a two-stage approach. The first stage would see ad hoc quota increases for a small number of systemically important emerging market economies at our next meeting in Singapore as a "downpayment" for additional governance reforms that would follow in the second stage. This second stage must have a clear deadline to ensure concrete action. At a minimum, reforms in the second stage should address the need to protect the voice of the poorest, clarify the roles of the Executive Board and management, and introduce greater transparency and the principle of merit into the selection of senior management. The Executive Board needs to focus on strategic issues and management needs to pay more attention to results.

Turning to surveillance, economic and financial integration has created new challenges, and the Fund and its membership must adapt accordingly. To be relevant, the IMF must focus on the right issues, and it must have the right processes in place to ensure that its advice has a real impact. Global financial markets underscore the need for increased emphasis on financial sector issues and public and corporate debt dynamics. The current global imbalances debate suggests the need for a closer look at regional and global linkages. Finally, the IMF must pay greater attention to exchange rate regimes and how country choices impact the allocation of benefits of globalization and risks to the global economy.

The most critical challenge facing the global community and the Fund today is the resolution of global imbalances, which reflect large current account deficits of some key economies mirrored by large current account surpluses of other nations. These imbalances are underpinned by mismatches of savings and investment on a global scale. The existence of a dual exchange rate system further aggravates the problem and delays the adjustment process.

The IMF has a critical role to play as global coordinator to help resolve these imbalances in an orderly fashion. Since global imbalances, as well as other issues of systemic importance, are problems not of just one country but of many, we need a multilateral format for consultations. We therefore support the proposed strengthening of multilateral consultation procedures. In this regard, yesterday's Conference on Global Imbalances was an important step. But this needs to be followed by an agreement to strengthen the IMFC as the body for multilateral economic and financial policy coordination.

Ultimately, surveillance is about the promotion of good public policy. And surveillance will be most effective if it takes place in the context of good governance based on strong political and economic institutions. In addition to its long-standing Article IV surveillance activities, the IMF has more recently promoted good governance through support for the Standards and Codes initiative, launched in 1999 and operationalized through the targeted surveillance instruments of the Financial Sector Assessment Program and the Reports on the Observance of Standards and Codes (ROSCs).

These have unquestionably helped to promote domestic and international financial stability through the dissemination of international best practices in key areas of macroeconomic relevance—namely the financial sector, fiscal transparency, and data dissemination and quality. It is time to ask whether a more comprehensive approach, broadening surveillance to include some aspects of the political institutional context, should be considered to identify additional vulnerabilities and assess the efficacy of international efforts to foster good governance. This could take the form of a "ROSC for Governance," which could integrate the Fund's existing work on good practices for fiscal, monetary and financial policy with broader perspectives, including those embodied in the World Bank's Country Policy and Institutional Assessment methodology.

Devoting more resources to more relevant multilateral and regional surveillance, and to systemically important issues and countries, will entail trade-offs. We stand ready to support the proposed two-track country surveillance process under which greater resources would be devoted to systemically important countries and issues of systemic importance, and with a streamlined procedure for other countries. We also agree with other measures to streamline internal governance processes to assure more effective decision-making processes, while keeping costs low.

The Fund must also heed the call of emerging market economies, which have challenged the Fund to help them benefit from economic and financial integration. The Fund is responding with concrete proposals, including a new contingent financing instrument which requires careful examination. In our view, any new instrument must be consistent with the Fund's exceptional access framework, which disciplines its lending activities, enhances risk management and provides greater certainty to markets. In designing the new instrument, the Fund must pay careful attention to lessons learned with similar instruments, including the Contingent Credit Line and the previous use of precautionary exceptional access for exit purposes. Finally, broad-based consultations will be necessary to ensure consistency with identified country needs, and to clarify access guidelines, pricing and the exogenous shocks to be covered by the instrument. We remain to be convinced that these complex issues can be resolved.

The Fund has made substantial progress in assisting low-income countries resume economic growth. Under the Multilateral Debt Relief Initiative, the Fund has made a clean break with the "lend and forgive" cycle by eliminating the debt owed by 19 small and poor countries. It has also introduced the Policy Support Instrument to foster a new non-borrowing relationship between the Fund and its small and poor members. The IMF has established the Exogenous Shocks Facility to assist small and poor members in recovering from financial difficulties outside of their control, including high oil prices. Canada has contributed to the costs of IMF debt cancellation and will contribute to the Exogenous Shocks Facility.

The IMF should build upon this strong base to strengthen further its assistance to low-income countries according to its mandate and comparative advantage. The IMF needs to work with low-income countries to prevent the re-emergence of unsustainable debt burdens. It should assist them to build and strengthen fiscal and debt management capacity and integrate debt sustainability considerations into Fund activities.

The Fund will need to work closely with the World Bank, which plays a leading role in coordinating assistance to low-income countries. We call on the Fund and the World Bank to clarify further their division of labour, based on clear accountabilities and a focus on results. The IMF plays an essential role in informing the macroeconomic policy choices of its small and poor members. But this role must be tempered with the need to work effectively with developing countries, the multilateral development banks, bilateral development agencies and the United Nations (especially in post-conflict cases).

Conclusion

The world will continue to change and barriers dividing us will continue to fall. We need strong international institutions, including a reinvigorated Fund, to ensure a well-functioning, market-based international financial system. But the Fund also needs us, its members, to empower it with the necessary support—cooperation, finance and attention. It is time to get to work.

Singapore
September 17, 2006

We meet today at an extraordinarily important time for the International Monetary Fund (IMF) as it implements the Medium-Term Strategy proposed by Managing Director de Rato and endorsed by this Committee. There is increasing recognition across the IMF's membership of the importance of implementing real reforms that will strengthen the Fund's ability to fulfill its mandate to promote international financial stability in an increasingly globalized world. We need to make progress in a number of key areas. Quota reform is one of those areas. But quota reform is only one part of a broader package of needed reforms. Making surveillance more effective and modernizing the Fund's governance structure are also vital. Real and lasting reform of the institution will require a renewed commitment to achieve agreement on a comprehensive second stage of reforms within two years. By reaffirming our commitment to the IMF, we will renew the institution and build a more flexible, market-based global financial system. At this critical juncture, the world is looking to us to show leadership and vision in carrying out this important and ambitious reform agenda.

Global Prospects

This meeting occurs in the context of a continued strong global economy. We have seen stronger than expected growth in the first half of this year, and the global economy is expected to grow 5.1 per cent this year and 4.9 per cent in 2007. The outlook continues to be stable in the face of increasing inflationary pressures and high energy prices, though we do find ourselves faced with risks that are slanted to the downside. In particular, growing global inflationary pressures and inflation expectations may require further interest rate increases. Given the current environment, we need to encourage open communication of monetary policy to prevent uncertainty over policy direction from spilling over into global financial markets. Although no major disruption to global growth is expected, we need to be vigilant in monitoring early-stage expansions underway in many parts of the world and ensure that we continue positive work in the area of reducing global imbalances.

Canadian Developments

The Canadian economy remains strong. In 2005, real gross domestic product (GDP) increased 2.9 per cent, the same pace as in 2004, underpinned by healthy consumer spending and non-residential business investment. Well-anchored expectations are helping to keep consumer price inflation low and stable. Solid personal income gains and robust corporate profit growth, coupled with Canada's strong monetary and fiscal fundamentals, should continue to support Canadian growth in 2006 and 2007, with estimated increases in real GDP of about 3 per cent in both years. This solid growth performance is especially noteworthy in a context in which Canada has experienced a substantial appreciation of its exchange rate, an appreciation that in part reflects a contribution to the resolution of global imbalances.

Canada's fiscal situation remains solid. On a total government basis, Canada was the only Group of Seven (G7) country in surplus in 2005 and will likely be the only G7 country to remain in surplus in 2006 and 2007. Total government net debt, as a percentage of GDP, has declined steadily from a peak of over 69 per cent in 1995 to under 27 per cent in 2005. Canada has had the lowest net debt to GDP of any G7 country since 2004, and this situation is also expected to continue.

Irish and Caribbean Developments

Let me now turn to developments in Ireland and the Caribbean countries that form part of the Constituency I represent at the International Monetary and Financial Committee (IMFC). The growth prospects for the Irish economy remain positive. In recent years, growth has averaged close to 5 per cent per year and, in the absence of major shocks, this pattern seems likely to persist in 2006 and 2007. Employment growth has been a particular feature of the economy in recent years, while unemployment has remained stable at a little over 4 per cent. There has been very significant inwards migration, especially from Eastern Europe, in addition to a continuously rising labour participation rate.

With a high dependence on imported energy and with recent increases in European Central Bank official interest rates feeding into the consumer price index through the mortgage rate, there has been a recent spike in inflation to 4.2 per cent, although the underlying rate is less than 3 per cent. The tightening of monetary policy, however, should impact favourably on Irish inflation going forward. The overall fiscal position will again be close to balance in 2006, reflecting the health of the economy and spending restraint. Overall, the remarkable success of the Irish economy over the past 15 years is continuing and the economy is well placed to cope with shocks, should they occur.

There was increased economic activity in most of the Caribbean countries in the Constituency in 2006, underpinned by a pickup in tourist arrivals and a construction boom, the latter largely due to preparations for the 2007 Cricket World Cup. These countries, nonetheless, continue to face risks associated with large current account deficits, the macroeconomic impact of higher oil prices and elevated levels of debt. Stabilization and consolidation efforts continued in the two countries—Dominica and Grenada—receiving Fund financial support through the Poverty Reduction and Growth Facility. Dominica's growth performance has been solid; while in Grenada, which was ravaged by storms in 2004 and 2005, the Fund supported program is providing the foundation for a comprehensive medium-term economic reform program.

The assistance being provided by the Caribbean Regional Technical Assistance Centre (CARTAC) has been invaluable to my Caribbean constituents. The current program cycle expires at the end of 2007 and an evaluation, coordinated by the Fund's Office of Technical Assistance Management, is currently underway. We urge continued Fund and other donor support for Phase III of CARTAC for the period 2008-2010. With the first phase of the CARICOM (Caribbean Community) Single Market and Economy initiative having been formally adopted earlier this year, we urge the Fund to further strengthen its regional surveillance activities. We believe that new modalities may be needed to enhance regional surveillance, and we support work by the Fund in formalizing these modalities.

IMF Reform

We are all aware of the fundamental changes that have taken place in the world economy in the last two decades. In concrete terms, globalization has translated into the ability of firms and individuals to easily invest in the markets of economies across the globe; into new and innovative financing for both private and public sector initiatives; and into massive flows of goods and capital across borders.

These developments have provided unparalleled opportunities for economic growth and private entrepreneurship, but at the same time have increased the costs of inappropriate policies. A key lesson to be drawn is that adaptability and innovation in response to change are vital to success. This lesson is as true for the IMF as it is for the rest of the world. Fundamental and innovative reforms are needed to ensure the IMF's continued relevance in a world where the economic influence of emerging market countries is growing, where the smallest and poorest countries need to be better integrated into the world economy and not marginalized, and where even the largest countries can be affected by spillover affects from others' policies. The Fund's surveillance and lending roles need to continue to adapt to be relevant and effective in this new environment.

Under the guidance of Managing Director de Rato, we have before us a broad and innovative set of policy responses to the challenges facing the institution. A stable and equitable financing model for the IMF itself will need to be considered as part of the reform package. Moreover, ensuring that IMF financing facilities serve the needs of members, while promoting sound economic and financial policies, will be a difficult but important task.

Today, I would like to focus on the challenges of moving forward on the reform of quotas and voice, as well as the role of the IMF in bilateral and multilateral surveillance.

Quotas and Voice

Perhaps the most pressing issue of IMF governance is reform of Fund quotas. Quotas determine the amounts that countries can borrow from the Fund in cases of balance of payments or budgetary problems and the resources that countries in good financial health can be asked to provide the Fund to help other members. They are also the major factor in determining countries' voting power at the Fund. Proper alignment of quotas with countries' economic and financial weight in the global economy is essential to the Fund's legitimacy as an international institution. Legitimacy in turn is key to ensuring that the Fund can serve as an appropriate forum for members and that the Fund's policy advice is heeded.

The Managing Director has developed an innovative and workable two-stage process that is aimed at renewing the Fund's governance structure. Canada fully supports Mr. de Rato's planned reforms, including the initial ad hoc increase for four highly under-represented countries—China, Korea, Mexico and Turkey. We view this ad hoc quota increase as a meaningful "down payment" on more comprehensive reform. Looking ahead, we see considerable merit in a second round of ad hoc quota increases that would follow agreement on a new quota formula in the second stage of reforms. We remain committed to making meaningful changes in the quota formula to better reflect global economic realities, and we are committed to doing this in the two-year time frame proposed by the Managing Director.

The IMF's legitimacy and effectiveness also require a stronger voice for low-income countries. Accordingly, we support at least a doubling of basic votes and an amendment to the IMF Articles that will introduce a mechanism to safeguard the share of basic votes in total voting power against erosion in the future.

Canada is also sensitive to the special challenges facing the offices of the two African Executive Directors at the IMF, who each represent constituencies of more than 20 countries. We support efforts currently underway to ensure that these offices are in a position to effectively represent the members of their large constituencies, many of which are involved in IMF lending and technical assistance programs.

As the IMF reforms its governance structure to better reflect the global economic weight of its members, we must all remember that IMF membership entails shared responsibilities and obligations. Indeed, as a member's role and voice in a global institution increases, it is reasonable to expect that the scrutiny placed on its responsibility to its partners and the stability of the international system will increase as well. This point also has relevance for the reforms we are undertaking on surveillance.

Surveillance

The Managing Director has taken an important and very welcome step toward strengthening the effectiveness of IMF surveillance through the recent launch of a multilateral surveillance exercise aimed at promoting high-level dialogue among key members of the global economy to address global imbalances. I am encouraged by the progress being made in these consultations and look forward to a report on their outcome at the next meeting of the IMFC.

This multilateral consultation mechanism could provide an effective and useful forum in which to consider other issues critical to the smooth functioning of the global economy. Indeed, we believe that consultations led by the IMF with selected capitals on key global economic issues should become a regular feature of Fund surveillance, with partner countries selected in a flexible and pragmatic manner linked to critical issues affecting the global economy.

The effectiveness of multilateral consultations, and of the IMF's surveillance activities more generally, will depend on an approach that combines the strong analytic competence of the IMF staff with a clear recognition of the underlying objectives of the consultations. This will require priority setting and accountability for results on the part of the Fund's membership. This, in turn, requires a number of steps.

First, it will be important to define in a more rigorous fashion the principles upon which IMF surveillance should be based. Up to now, while imbalances and distortionary economic policies have often been highlighted in Article IV reviews of member economies, the Fund's surveillance activities have been criticized for not being effective in reducing the likelihood of crises or in promoting stability. As well, the Fund has been reluctant to act forcefully when it identifies instances where countries failed to live up to their obligations, and, in particular, where countries are engaging in policies that negatively affect other members or even the stability of the international monetary system. A challenge of more effective IMF surveillance is, certainly, for the Fund to find the right balance between its role as a "trusted advisor" to governments, and its core responsibilities to support a well-functioning global economy.

Second, the Fund needs a clearer operational approach—specific rules to clarify how the Fund will discharge its responsibilities by undertaking surveillance of fiscal, monetary, exchange rate and financial sector policies, and identifying cases where domestic economic and financial policies can have adverse international spillovers. These rules should clarify the steps to be taken when countries are found to be engaging in currency manipulation and/or competitive devaluation—activities prohibited by the Fund's Articles of Agreement—and should provide a firm basis for actions to address the situation.

In this context, I welcome the ongoing work by Fund staff and Executive Directors to revisit the 1977 Decision on Surveillance over Exchange Rate Policies, which should lead to a clearer and more effective understanding of IMF members' responsibilities and the Fund's role in supporting the international financial system.

Third, there must be clear accountability for results, based on the priorities agreed and endorsed by the Fund's membership. In this respect, an important step forward was the agreement at the last meeting of the IMFC on a new annual remit for both bilateral and multilateral surveillance through which the Managing Director, the Executive Board and the staff would be accountable for the quality of surveillance. We look forward to working with other Fund members, as well as the Managing Director and IMF staff, to develop a first remit that identifies key priorities for Fund surveillance in the year ahead.

This approach, implemented in the Fund's ongoing multilateral and bilateral surveillance activities, together with effective use of innovative mechanisms such as the current exercise on global imbalances, will make a major contribution to strengthening the IMF's role in promoting the stability of the international system.

Looking Forward

In the quest to reinvigorate the IMF, the successes here in Singapore are real and significant. The progress on quota reform will greatly improve the governance structure of the Fund. IMF reform, however, goes beyond quota reform alone: there is an important agenda we need to pursue in the areas of surveillance, Fund financing, and crisis prevention and resolution before the IMF can be fully transformed into the modern and representative international institution the world needs to safeguard global financial stability. We can take credit for what we have achieved at Singapore, but we need to press on with these important remaining challenges.

Annex 2

Statements Prepared for the Development Committee of the Boards of Governors of the World Bank and International Monetary Fund

The Honourable Jim Flaherty, Minister of Finance for Canada,

on behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines

Washington, DC
April 23, 2006

It is striking that one key theme discussed by Ministers this weekend is similar to what my own government has identified as an important domestic priority. In particular, I would highlight the Government of Canada's commitment to strengthening its system of public governance to increase accountability. Accountability is a universal issue, transcending national boundaries. Given their mandates and relationship with their members, the Bretton Woods institutions have a strong role to play in promoting accountability and good governance.

Strengthening accountability is a shared responsibility. Donors and developing countries must work together to ensure that aid is used effectively to achieve concrete development results. Appropriate monitoring of policies is key to ensuring that we stay on track in fulfilling our commitment to achieve the Millennium Development Goals (MDGs). In recent years, we have seen a stronger collaboration between the Bank, the United Nations and the Organisation for Economic Co-operation and Development in developing a broader global monitoring framework to track progress in meeting the individual MDGs. However, more can be done to improve this process.

Measuring Results

Measuring results is a key element in the development paradigm. The collection of accurate, timely, useful statistics is critical to gaining an accurate understanding of progress achieved and the challenges that remain. Timely and reliable statistics are a key input to a results agenda.

As a national capacity to gather and assess statistics is critical to our efforts to monitor progress towards the MDGs, we must continue to support the Bank's Statistical Capacity Building Program.

As part of Canada's approach to development, the Canadian International Development Agency and Statistics Canada are working more closely together to help developing countries strengthen statistical systems, institutional capacity and planning. The strength of individual countries' statistical agencies should be regularly assessed and supported by increased technical assistance. Given its importance in monitoring progress towards the MDGs, we would like to see countries' statistical capacity routinely appraised in the context of Country Assistance Strategies.

Reaching the MDGs—A Shared Responsibility

By any measure, we are still too far from reaching the MDGs in too many parts of the world. We are encouraged that significant progress is being made in aggregate, due in part to the relatively favourable economic environment. However, we are concerned that progress has been uneven across countries and regions, with many being left behind, particularly in Sub-Saharan Africa. In the relatively short period remaining until 2015, it is clear that we need to strengthen our efforts to ensure that the promise of the MDGs translates into reality for the world's poorest citizens.

Canada is strongly committed to working in partnership with developed and developing countries, in an environment of mutual accountability, to reach the MDGs by the 2015 target. Reaching the MDGs will require greater efforts by developed countries to increase aid effectiveness and to ensure that aid is delivered in ways that support strengthening developing countries' governance structures. It will also require efforts on the part of developing countries to strengthen governance and accountability, to manage their economies more effectively, and to follow through on national poverty reduction strategies.

Ireland has also made strides in ensuring its aid dollars work better. Ireland has set a target of increasing its international assistance to 0.5 per cent of gross national product (GNP) by 2007 and to 0.7 per cent of GNP in 2012. It is well on track to meeting these targets, with assistance projected to reach 0.47 per cent of GNP in 2006. In Ireland, the increase in aid of over 24 per cent in 2006 is the largest additional amount of funding that has ever been provided in any one year. Ireland's Official Development Assistance (ODA) budget has more than quadrupled over the last decade, rising from 0.30 per cent of GNP in 1996 to 0.47 per cent in 2006.

Canada and Ireland both supported the Multilateral Debt Relief Initiative (MDRI), which has been implemented at the International Monetary Fund (IMF) and is being implemented at the International Development Association and the African Development Fund. We are committed to maintaining the financing capacities of these institutions. Ireland will address this by paying its entire share of the MDRI in 2006. Canada has already paid its share of the IMF's costs. It will be critical to ensure that this debt relief frees up fiscal space for important investments in areas such as health and education. In this context, we will want to ensure that the MDRI and the associated Debt Sustainability Framework do not lead to any adverse impacts on the flow of transfers to developing countries.

We need to ensure that this assistance is used effectively, and that any increase in aid resources translates into a commensurate increase in poverty reduction. Mutual accountability between donors and recipients is critical to promote the partnership spirit from the Monterrey Consensus. Developing countries must improve their performance to attract financial support, through both ODA and private sector investment, and to improve their domestic resource mobilization. For their part, donors need to do a much better job of supporting developing country ownership of poverty reduction strategies, aligning assistance to developing country priorities and coordinating assistance efforts with recipient countries and with each other. The 2005 Paris Declaration on Aid Effectiveness lays out a practical, action-orientated roadmap to improve the quality of aid and its impact on development. At the international level, it constitutes a mechanism through which donors and recipients of aid are held mutually accountable for meeting partnership commitments. At the country level, the Paris Declaration encourages donors and partners to jointly assess their mutual progress in implementing agreed commitments on aid effectiveness.

I would also reaffirm the importance of more concentrated efforts within the context of the World Trade Organization Doha Development Round to ensure that developing countries gain market access, which is key to achieving the economic growth required to meet the MDGs. Since the launch of the Round in 2001, serious challenges have arisen and important milestones have been missed. Clearly, we need to make significant progress on these negotiations to realize the promise of the Doha Development Round and reap its benefits. We need to work collectively to reach our goal of achieving substantive reductions in tariffs and agriculture subsidies by the end of the year. We expect the IMF and World Bank to strengthen their engagement under the "Aid for Trade" agenda as a necessary and complementary element to help countries benefit from further trade liberalization.

The Challenge of Governance

The composition of the Bank's lending portfolio has been shifting over the last decade, with a greater focus on those countries with a proven commitment to use assistance effectively. We know that strong policy environments, institutions and governance are essential for aid effectiveness. Countries with strong performance can absorb higher levels of aid and are likely to be more effective in converting aid into economic growth and poverty reduction.

Providing effective development support to countries with poor governance records remains a key challenge for the World Bank. The Bank has identified corruption as one of the single greatest obstacles to economic and social development. It undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. The harmful effects of corruption are especially severe on the poor, who are hardest hit by economic decline, most reliant on the provision of public services, and least capable of paying the extra costs associated with bribery, fraud and the misappropriation of economic wealth.

As the Bank continues to tackle issues of poor governance, we need to ensure greater clarity in the Bank's approach and a consistent application of its policies to borrowing members where weak governance, including corruption, is judged to represent significant risk. To this end, we look forward to early consideration by the Executive Board of a set of guidelines that will steer the Bank's operations in high-risk countries.

A Strategy for Middle-Income Countries

I would also like to address middle-income countries (MICs), where we have seen progress in achieving the MDGs. An example, highlighted in the Global Monitoring Report, is in the area of education, where there have been significant improvements in primary education completion rates. However, there remain significant disparities within MICs and we cannot be complacent.

While the Bank's role in low-income countries (LICs) is well understood, the institution's role in MICs is more complex. Many of these countries have access to alternative sources of financing that elude the LICs. Since a majority of the world's poorest live in MICs, the Bank must remain involved; however, its engagement must be clearly based on its comparative advantage. The World Bank's poverty reduction focus must be the touchstone of the Bank's efforts in these countries.

We see several areas where the Bank's strategy in MICs can be improved. The Bank has recognized that complex operational procedures are a burden for borrowing countries, and it has made recent progress in reducing transaction costs, speeding up delivery of support, and reducing or eliminating conditionality of investment operations. More progress is required, however, in simplifying procurement and disbursements. Greater attention must be given to the Bank's role in synthesizing and disseminating knowledge and advice to MICs.

Another area where we urgently need progress is in financial sector reform. Strong financial sectors are the best defence against financial crises and the impact they have on the poorest. Strong financial sectors are also needed to channel financing to the poorest to enable them to help themselves. Despite years of Bank lending to these countries for financial sector reform, stronger financial sectors have not been developed in many MICs. In defining its strategy for financial sector development in MICs, the Bank should set performance targets, such as healthier banking sector balance sheets and increased lending to small and medium-sized enterprises.

A results-driven approach to MICs means that over time we should see these countries become less dependent on aid dollars and able to attract more private sector financing, including through foreign direct investment (FDI). Currently, only five emerging market economies receive 60 per cent of all FDI inflows to developing countries. I would like to see the Bank's work focus on increasing the number of recipients of significant FDI over the next decade.

Meeting the Needs of Small States

Efforts to advance the development agenda cannot overlook the particular challenges of small states, including those in the Caribbean. We know these states are highly vulnerable to damage from recurring hurricanes, particularly in their low-lying coastal areas. Immediate attention is needed for small island states to help mitigate the risks of natural disasters. To this end, the World Bank's efforts to study possible insurance schemes for public assets and the International Finance Corporation's work to find new mechanisms to insure private dwellings are critical. We will continue to support the Bank's development of this new approach to comprehensive catastrophe risk insurance in the Caribbean and other small states, and call upon other donor governments and the private sector to join these efforts.

A longer-term challenge is the transfer of existing and new technologies required for adaptation to new weather patterns, particularly in the key sectors relating to agriculture and associated water resource management. However, these countries also face other challenges. These include faster-than-anticipated erosion of trade preferences, which are severely impacting several small states; the challenges of complying with more rigorous financial services regulations; and the underlying problem of small domestic markets aggravated by geographical dispersion. The latter leads to high per-unit costs, precludes economies of scale, raises transportation costs and undercuts efforts to foster regional integration. The World Bank has an important role to play assisting small island states to meet these challenges.

Singapore
September 18, 2006

These meetings provide a valuable opportunity for us to reflect on our achievements and, more importantly, on areas where we need to redouble our efforts. We have spent much of this weekend discussing how to sustain and build momentum through our collective efforts to achieve concrete development results in support of the Millennium Development Goals (MDGs).

Governance and Corruption

Accountability and effectiveness are key themes for discussion this weekend. We had very successful discussions on quota reform and improved surveillance yesterday at the International Monetary and Financial Committee, which will contribute to a more effective and representative International Monetary Fund (IMF). Within this committee, we have focused on how promoting good governance, including fighting corruption, and mutual accountability are essential to efforts to accelerate progress towards the MDGs. We know that aid is less effective in countries plagued by weak governance. While I think we have made good progress in recent months on this issue, significant challenges lie before us.

Ultimately, we need to recognize that only countries themselves—led by their own governments—can provide the leadership and ownership needed to strengthen governance. However, donors and international agencies can and should help with this process. Aid must be delivered in ways that support our partners' capacity to govern and promote accountability in the use of public resources.

The World Bank has demonstrated that it is a leader in governance and anti-corruption. We welcome the Bank's efforts since we met last spring to articulate a broad strategy to promote a more coherent, transparent and results-oriented approach. Going forward, we need to deepen our understanding of the challenges that weak governance and corruption pose for the development process and address more specifically how the Bank can meaningfully address these issues. As well, there remains a need for clear operational guidelines to better understand how decisions should be taken on World Bank support in situations where weak governance and corruption present real risks.

In countries where corruption is a challenge, we need to have clearer rules on the Bank's terms of engagement. We continue to urge the Bank to remain engaged even in countries where corruption represents a significant challenge, because without the Bank's efforts, there may be little progress forward. But the World Bank cannot tackle these issues on its own, and we look to continued progress in developing a common approach to tackling corruption, involving other donor partners as well as other multilateral development banks.

In effect, we all need to engage in the fight against corruption. International institutions must ensure that their in-house operations meet high integrity standards and that their interventions in member countries promote good governance. Developed countries must lead by example by trying to ensure that the operations of their governments and corporations are models of transparency and accountability.

Aid Effectiveness

Canada, Ireland and the Commonwealth Caribbean countries are strongly committed to working in partnership with others in an environment of mutual accountability to reach the MDGs by the 2015 target. Meeting these goals requires that, in addition to strengthening governance and accountability, developing countries manage their economies effectively and follow through on national poverty reduction strategies. For their part, donor countries must increase the effectiveness of their aid. Ensuring predictability of aid flows is critical to allowing developing partners to commit to essential reform and capacity-building measures. Developing countries also need to receive longer-term commitments to core areas of funding, especially for the provision of services to the poor.

We urge donors to reduce the aid management burden, particularly on the poorest and smallest states, in line with commitments under the Paris Declaration on Aid Effectiveness. Progress on these issues is important to secure stronger results on the ground. The Bank should draw on its recent experience in Africa and continue to promote stronger donor alignment, harmonization and coordination. In this regard, we encourage the expansion of recent efforts by the World Bank to prepare Joint Assistance Strategies with other donors based on national development strategies, such as Poverty Reduction Strategy Papers. And because the collection of accurate and timely statistics is critical to gaining an accurate understanding of progress achieved and the challenges that remain, I would reiterate my earlier suggestion that countries' statistical capacity be routinely appraised in the context of Country Assistance Strategies.

Investing in People

Today, there are 115 million children who have never entered school and another 130 million who will never complete primary school. Yet we know that investment in basic education is essential to achieve significant and sustainable results in poverty reduction. Canada believes that the international community has an important role to play in advancing efforts to achieve improvements in school enrolment as well as in primary school completion rates. This will require investments in bricks and mortar, in staff training and salaries, in teaching materials and in incentive schemes to encourage parents to enrol their sons and daughters.

Canada's investments in basic education in Africa have almost quadrupled since 2000, reaching $100 million annually by 2005. This has produced concrete results, contributing to more than 9 million additional enrolments in primary schools, with more than half of these places going to girls. We will continue to invest in education for African children, increasing our bilateral funding to $150 million a year over the next four years. Canada is also a strong supporter of the Education For All-Fast Track Initiative (EFA-FTI), which encourages donor and recipient countries to work in a spirit of partnership to achieve the education MDGs. Canada recently announced it will provide a $25-million contribution towards multilateral engagement with the EFA-FTI. This is in addition to the $46 million that Canada has committed through its bilateral aid program to the EFA.

More than 7 million people die annually from infectious diseases like pneumococcus, malaria, HIV/AIDS and tuberculosis, mostly in poor countries. Compounding this loss of life is the economic burden that disease places on families, and the repercussions for national economic development. We have spent much of the past year exploring a number of innovative finance proposals to help address international development challenges, particularly those in global health.

To this end, the Advance Market Commitment (AMC) pilot appears to us to be a particularly promising initiative. Canada is ready to contribute $100 million to support an AMC pilot project, which should be ready to launch by the end of this year, to develop vaccines. We urge donors to demonstrate support for an AMC pilot for a pneumococcus vaccine by providing the necessary financial commitments to ensure that we can launch this important project this year.

And in recognition that gender issues remain an area where more work is needed, we are encouraged by the World Bank's renewed attention and efforts to advance women's economic empowerment to achieve growth, poverty reduction and meet the MDGs. We believe that gender equality is an area in which the Bank has a comparative advantage and can provide strong leadership.

Renewing the Trade Agenda

The Doha Development Round was seen by many as an opportunity to further integrate developing countries into the multilateral trading systems. While we recognize the impasse, we continue to believe that a successful outcome to the Round would be the best way to realize the potential of trade as a tool for development. We stand ready to work with other World Trade Organization (WTO) members and the Director General of the WTO to find a way forward. In the meantime, we encourage all donors to meet their "Aid for Trade" commitments and support the continued strengthening of the Enhanced Integrated Framework as an effective collaborative mechanism for the identification, delivery and assessment of trade-related assistance. We also look to the World Bank and the IMF to continue their advocacy work on trade liberalization and to continue their support of furthering the Aid for Trade agenda.

Debt Reduction

The international development community has made great progress in debt reduction for the poorest countries. The Multilateral Debt Relief Initiative (MDRI) became effective at the IMF in January 2006 and at the International Development Association (IDA) in July 2006. We have every expectation that it will shortly become effective at the African Development Fund (AfDF).

Canada and Ireland are strong supporters of the ongoing work to address unsustainable debt burdens in low-income countries. In this context, it is important that we ensure that the MDRI leads to increased development resources. To achieve this, international financial institutions must be fully compensated for the costs of the MDRI and funding must be additional. We are committed to maintaining the financing capacities of the IMF, IDA and the AfDF as these institutions implement the MDRI. Ireland is paying its IDA share of MDRI costs up front. Canada has already paid its IMF share of MDRI costs and will begin making its payments to IDA and the AfDF as planned.

A growing concern, however, is that significant debt reduction creates substantial new borrowing room in some countries, which if not managed carefully could rapidly be filled with unproductive new financing. This new financing could reverse recent efforts to maintain debt sustainability under the World Bank-IMF Debt Sustainability Framework (DSF) and result in a rapid re-accumulation of debt in poor countries. We believe that more can and should be done to break such a "lend-and-forgive" cycle and ensure long-term debt sustainability. The review of the DSF in the context of the IDA14 Mid-Term Review will be important to advance this issue. It will also be important for borrowers to improve their debt management capacity, which is an area where the World Bank can provide expertise. Creditors must also do their part. A coordinated approach by all creditors, based on the analysis underlying the DSF, could help mitigate the risk of excessive borrowing.

Fragile States

Canada welcomes the World Bank's ongoing support for fragile states, including in post-conflict situations. Canada is actively involved in assisting a number of fragile states, with large development assistance programs, for example, in Afghanistan and Haiti.

While it is clear that the Bank has made considerable progress in its involvement in fragile states over the past four years, more needs to be done. Canada is working with the Bank to set up a Fragile States Partnership and Knowledge Initiative to develop and strengthen knowledge about effective approaches in fragile states. One area for further work is the Bank's aid allocation system. While we support a performance-based allocation system to determine IDA aid volume, we believe that there is scope to refine the system to be more effective in responding to the special challenges of state fragility. In this area, the IDA14 Mid-Term Review provides an opportunity to make real progress as we prepare for IDA15.

While there is also scope to continue to improve the Bank's state-building, governance and capacity development work, the Bank provides real value added in this area. This area requires long-term engagement and sustained investments in order to achieve lasting results. The Bank's financing predictability through IDA and long-term focus have allowed it to take on a leadership role in this area.

International Bank for Reconstruction and Development (IBRD) Partner Countries

We welcome the World Bank's recent evaluation of its role in IBRD partner countries. Bank engagement must be based on its comparative advantage, and poverty reduction must remain the focus of its efforts in these countries. In that vein, the Bank must continue to increase the effectiveness of its collaboration with other international players, including the IMF, bilateral donors and the private sector, in developing a comprehensive strategy to guide the Bank's involvement in these countries over the longer term.

As a measure of success, these countries should become less dependent on aid dollars over time and better able to attract private sector financing, including foreign direct investment (FDI). Currently, five emerging market economies account for 60 per cent of all FDI inflows into developing countries. The Bank should work to increase the number of recipients receiving significant FDI flows over the next decade.

Meeting the Needs of Small States

Efforts to advance the development agenda cannot overlook the particular challenges of small states, including those in the Caribbean. The international community, led by the World Bank, must play an enhanced role in assisting small states to position themselves for success in the global economy. Despite the strong global economic growth in recent years, the economic growth of small states has failed to keep pace with larger low- and middle-income countries. In some cases, this has reflected the faster than anticipated erosion of trade preferences. As a consequence, many of these economies are falling short of reaching the MDGs. To rectify this situation, there is a dire need for better analytical work on options for growth, competitiveness, economic diversification and international trade.

The continuing loss of critical skills in small states as a result of migration also needs to be addressed. Support for human resource development is crucial as these countries expand service exports and other areas where they are competitive. On the related issue of remittances, which are an important source of foreign exchange and capital for many small states, we encourage the Bank to continue its work with other international financial institutions and partner countries to better understand these arrangements and help facilitate these transfers.

The small island states of our constituency remain at risk of natural disasters. The Bank needs to continue to work with these countries and their partners to mitigate these risks. We continue to support the Bank's development of a Catastrophe Risk Insurance Facility in the Caribbean and other small states, and call upon other donor governments and the private sector to join these efforts. A longer-term challenge is the transfer of existing and new technologies required for adaptation to new weather patterns, particularly in the key sectors relating to agriculture and water resource management. We strongly support the Bank's plan to expand analytical work to develop screening tools to assess the nature of climate risks to development projects, build the capacity of institutions and communities to better cope with the risk of natural disasters, and support the development of new and more innovative risk management tools.

Annex 3

Communiqués of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

Washington, DC
April 22, 2006

1. The International Monetary and Financial Committee held its thirteenth meeting in Washington, D.C. on April 22, 2006 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

2. The Committee welcomes the continued strong expansion of the global economy, despite higher oil prices. The expansion is becoming geographically more broadly based, and global growth is expected to remain strong in the next couple of years. Inflation and inflationary expectations remain well contained—although with excess capacity diminishing, continued vigilance will be required. The Committee notes that downside risks arise from continued high and volatile oil prices, the potential for an abrupt shift in global financial market conditions, a rise in protectionism, and a possible avian flu pandemic. The major risks posed by underlying vulnerabilities, including from widening global imbalances, have yet to be comprehensively addressed.

3. The Committee reiterates that action for orderly medium-term resolution of global imbalances is a shared responsibility, and will bring greater benefit to members and the international community than actions taken individually. While progress has been made, more concerted and sustained implementation—with every country doing its part—is needed to help reduce medium-term risks associated with the imbalances. Following the discussion at the Global Imbalances Conference held at the IMF on April 21, the Committee confirms that the agreed policy strategy to address imbalances remains valid. Key elements include raising national saving in the United States—with measures to reduce the budget deficit and spur private saving; implementing structural reforms to sustain growth potential and boost domestic demand in the euro area and several other countries; further structural reforms, including fiscal consolidation, in Japan; allowing greater exchange rate flexibility in a number of surplus countries in emerging Asia; and promoting efficient absorption of higher oil revenues in oil-exporting countries with strong macroeconomic policies. Given economic interlinkages, all countries and regions will have a role to play by increasing the flexibility of their economies and adapting to changing global demand patterns. The Committee therefore asks the IMF to work on modalities, in consultation with country authorities, aimed at encouraging actions needed to reduce the imbalances, and calls for a report at its next meeting. More generally, the new multilateral consultations, as outlined in the Managing Director's report on implementing the IMF's medium-term strategy, can play a role in promoting multilateral action.

4. The Committee welcomes the actions already taken to address capacity constraints in oil production. Building on this progress, it calls for further measures to improve the supply-demand balance in oil markets over the medium term, with oil producers, oil consumers, and oil companies all playing their part, including through closer dialogue. The Committee emphasizes the importance of further upstream and downstream investment, policies to promote energy efficiency, conservation, and alternative sources of energy, reducing subsidies on oil products, and further efforts to improve the quality and transparency of oil market data. The Committee will review progress on these issues at its next meeting.
5. Steps to strengthen medium-term fiscal positions remain crucial to support growth and stability, and improve resilience against future shocks. Greater advantage should be taken of the economic expansion to reduce fiscal deficits, and to move forward with reforms to ensure the sustainability of pension and health systems. The Committee also underscores that faster progress to remove constraints to growth in labor and product markets and improve the business and investment climate is essential to reap the benefits of globalization. The Committee welcomes the continued strength of the global financial system, and calls for continued vigilance by financial supervisors, especially regarding the potential impact of a turn in the credit cycle. The Committee calls on members to ensure the robustness of essential economic and financial infrastructure as part of a broad strategy to address the risk of an avian flu pandemic and, in this context, supports the IMF's outreach initiative to promote business continuity planning among financial institutions.
6. The Committee emphasizes the importance of an ambitious and successful outcome to the Doha Round by the end of 2006 for global growth and poverty reduction. The Committee calls on all members to resist protectionism in both trade and foreign direct investment. With time running increasingly short, all members must urgently contribute to reaching agreement on the key elements of a comprehensive package supporting a strengthened multilateral trading system. The Committee also calls for continued efforts to help countries take full advantage of the opportunities of global integration arising from ambitious trade liberalization. For poor countries in particular, the Committee urges Aid for Trade assistance firmly grounded in national development strategies and full use of existing and enhanced mechanisms for trade-related technical assistance.
7. The improving growth prospects in poor countries, including in Sub-Saharan Africa, are encouraging. The Committee emphasizes that achieving the Millennium Development Goals (MDGs) requires a partnership between poor countries and donors. Developing countries should continue to pursue sound macroeconomic policies and growth-critical reforms, including further substantial efforts to build sound, accountable, and transparent institutions. The international community should follow through expeditiously on its commitment to provide additional resources.

Implementing the IMF's Medium-Term Strategy

8. The Committee welcomes the Managing Director's report on implementing the IMF's medium-term strategy, and appreciates the public debate on the role of the IMF. It calls on management and the Executive Board to complete their considerations and then move rapidly to implementation.

9. The Committee reiterates that the IMF's effectiveness and credibility as a cooperative institution must be safeguarded and its governance further enhanced, emphasizing the importance of fair voice and representation for all members. We underscore the role an ad hoc increase in quotas would play in improving the distribution of quotas to reflect important changes in the weight and role of countries in the world economy. The Committee agrees on the need for fundamental reforms. The Committee calls upon the Managing Director to work with the IMFC and Executive Board to come forward with concrete proposals for agreement at the Annual Meetings.

10. The Committee reiterates the importance of making IMF surveillance more effective and supports a review of the 1977 Surveillance Decision. In the context of the Managing Director's medium-term strategy, the Committee proposes a new framework for IMF surveillance which will consist of four elements. First, a new focus of surveillance on multilateral issues, including global financial issues, and especially the spillovers from one economy on others. Second, a restatement of the commitments which member countries and their institutions make to each other under Article IV on which surveillance can focus on monetary, financial, fiscal and exchange rate policies. Third, the Managing Director should implement his proposal for a new procedure, which will involve the IMFC and the Executive Board, for multilateral surveillance. Fourth, the IMFC should set a new annual remit for both bilateral and multilateral surveillance through which the Managing Director, the Executive Board and the staff are accountable for the quality of surveillance. This should involve the independence of Fund surveillance, greater transparency and the Independent Evaluation Office.

11. As emerging market members pursue sound policies and integrate effectively into world trade and capital markets, they make a welcome contribution to global economic stability and avoidance of financial crises. The Committee welcomes the IMF's efforts to respond to the new challenges and needs of emerging market members. Financial and capital markets issues should be increasingly at the center of the IMF's work in these countries. The Committee supports further examination of the Managing Director's proposal on a possible new instrument to provide high access contingent financing for countries that have strong macroeconomic policies, sustainable debt, and transparent reporting but remain vulnerable to shocks. The Committee encourages the IMF to explore the role it can play in supporting regional arrangements for pooling reserves. A review is also needed of the operational aspects of the IMF's policy on lending into arrears.

12. The Committee stresses that the IMF has a critical role in low-income countries, including in helping to ensure that expected increases in aid flows and debt relief are absorbed effectively and in a manner consistent with macroeconomic stability. The IMF needs to play its part within its areas of core competence in monitoring progress toward the MDGs. The Committee welcomes the establishment of new instruments that will strengthen the IMF's support for low-income countries, including the Policy Support Instrument and the Exogenous Shocks Facility, and underlines the importance of further contributions to enable the IMF to provide timely concessional shock financing. The Committee welcomes debt relief provided by the IMF and other institutions under the HIPC Initiative and Multilateral Debt Relief Initiative (MDRI). It also welcomes the agreement on the final list of potentially eligible members that meet the

criteria of the HIPC Initiative. The Committee underscores the importance of ensuring debt sustainability in countries receiving debt relief by refining the joint IMF-World Bank debt sustainability framework, and helping countries to implement sound medium-term debt strategies and strong public expenditure management and tax systems. The Committee notes the importance of countries avoiding the re-accumulation of unsustainable debt and the potentially adverse consequences of nonconcessional borrowing for debt sustainability. It urges all creditors to work with the IMF and the World Bank to adhere to responsible lending. The Committee considers it critical for the effectiveness of the IMF's work in low-income countries that its policy advice, support for capacity building, and financial assistance are closely aligned with the countries' evolving needs and poverty reduction strategies, and focused on macroeconomic issues, including institutions relevant to financial stability, trade, and economic growth.

13. The Committee supports efforts to clarify the division of responsibilities and accountabilities of the IMF and the World Bank, and to improve their collaboration. It welcomes the establishment of the External Review Committee on World Bank-IMF Collaboration, and looks forward to its conclusions.

14. The Committee notes that the IMF's budgetary position has changed following the recent decline in IMF credit, and this requires actions on both income and expenditure. The Committee calls on the Managing Director to develop proposals expeditiously for more predictable and stable sources of income. The Committee welcomes that the medium-term strategy is formulated in a budget-neutral way, and encourages the IMF to further prioritize and streamline its work.

Other Issues

15. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement. The Committee calls for continued actions by all countries to develop strong programs on anti-money laundering and combating the financing of terrorism (AML/CFT), and supports the comprehensive assessment of these programs within the context of the Financial Sector Assessment Program.

16. The Committee notes the upcoming discussion by the Executive Board of the external evaluation of the Independent Evaluation Office (IEO), and looks forward to the continuing contribution of the IEO to the IMF's work.

17. The next meeting of the IMFC will be held in Singapore, on September 17, 2006.

Singapore
September 17, 2006

1. The International Monetary and Financial Committee held its fourteenth meeting in Singapore on September 17, 2006 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee expresses its gratitude to the Singapore authorities for the excellent arrangements.

Quota and Voice Reform in the IMF

2. Following the call at our last meeting to safeguard and enhance the IMF's effectiveness and credibility, the Committee stresses the importance of IMF quota and voice reforms. The Executive Board has submitted a comprehensive two-year program of quota and voice reforms in a draft resolution to the Board of Governors. Subject to the adoption of the resolution, the September 2006 meetings would initiate an integrated set of reforms, to be completed no later than by the 2008 Annual Meetings. Starting with initial quota increases for China, Korea, Mexico, and Turkey, this package of reforms, when implemented, would make significant progress in realigning quota shares with members' relative positions in the world economy and, equally important, in enhancing the participation and voice of low-income countries in the IMF as set out in the resolution. The Committee urges the Executive Board to work constructively and expeditiously on all elements of the reforms so as to garner the broadest possible support, underlines the importance of timely implementation of the program, and calls on the Managing Director to provide a status report at its next meeting.

The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

3. The Committee welcomes the ongoing strong and broad-based global economic expansion. Growth is expected to remain robust in 2007. However, there are downside risks from the possibility of a continued build-up of inflationary pressures, a slowdown in consumption in a number of countries, continuing high and volatile energy prices, and the spread of protectionism. The Committee agrees that in the period ahead the IMF should focus on supporting its members in promoting policies for: reducing global imbalances while sustaining global growth; addressing the impact of high oil prices, in particular on the most vulnerable countries; managing the likely transition to less generous liquidity conditions; and ensuring medium-term fiscal sustainability and financial stability. The Committee underscores that reinvigorating the momentum of multilateral trade liberalization is critical so as to sustain and strengthen the foundations of global growth.

4. In the advanced economies, monetary policy will need to continue solidly anchoring inflation expectations and to balance the relative risks to price stability and growth. The current favorable economic environment provides an opportunity for ambitious fiscal consolidation, backed up with credible policy measures to put social security and health care systems on sounder footings to cope with the challenges of population aging. Growth prospects should be bolstered by structural reforms needed in many countries to improve the business environment and product market flexibility, enhance the capacity of labor to adapt to globalization, and spur productivity advances.

5. In emerging market and other developing countries, improved fundamentals have underpinned the resilience of growth to high oil prices and tighter global financial conditions. Growth performance, especially in emerging Asia, has benefited from market-oriented reforms, open trade, and competition. In countries where vulnerabilities remain, further efforts are needed to strengthen public sector balance sheets, anchor inflation expectations, improve the functioning of financial sectors, and ensure the sustainability of external positions.

6. Growth in low-income countries overall, including in Sub-Saharan Africa, remains strong. The Committee emphasizes the importance of a strong partnership between poor countries and donors to underpin further efforts to accelerate growth to help achieve the Millennium Development Goals (MDGs). Countries should persevere with sound macroeconomic policies, strengthening institutions, and growth-critical reforms. The international community should also support countries' own poverty reduction efforts with increased and more effective aid, agreed debt relief, and bold market-opening initiatives.

7. The Committee calls for sustained actions to implement the agreed policy strategy to underpin an orderly unwinding of global imbalances. The strategy involves: steps to boost national saving in the United States, including fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural reforms, including fiscal consolidation, in Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil producing countries. The Committee welcomes the multilateral consultation by the IMF, which provides an opportunity to support the agreed policy strategy.

8. The Committee remains concerned about high and volatile prices in world energy markets. It welcomes the actions taken to address capacity constraints in oil production, and calls for continued measures from all sides to improve the supply-demand balance in oil markets over the medium term. This will involve increased investment to build up adequate production and refining capacity, incentives to encourage energy conservation by consumers, steps to improve the quality and transparency of oil data, and closer dialogue among oil producers and consumers. The Committee also calls on the IMF to continue to provide advice and support—in particular, to its low-income members—to help countries adjust to high oil prices.

9. Following our meeting with business leaders, we reconfirm our shared commitment to strengthen the foundations of a globalized economic and financial system that promotes growth and poverty reduction and provides equitable opportunities for all. The Committee also received a report on the current status of the multilateral trade negotiations under the Doha Round from Mr. Pascal Lamy, Director-General of the WTO. The Committee expresses its deep disappointment that the trade negotiations have been suspended. It urges all WTO members to maintain their commitment to the rules-based multilateral trading system, resist protectionist calls, and preserve progress that has already been made. The Committee calls for leadership from the major trading nations to work urgently toward an early resumption of the negotiations, and an ambitious, successful outcome by the end of the year, based on a commitment to a comprehensive package on agriculture, industrial products, and services, to which all countries will need to contribute.

10. The Committee recognizes the importance of achieving the MDGs. In this context it also stresses the importance of implementing Aid-for-Trade assistance, which is firmly grounded in national development strategies, independent of progress on the Doha Round. We welcome the reports of the taskforces on the Integrated Framework and on Aid for Trade and the financing commitments by donors for the enhanced Integrated Framework.

Implementation of the IMF's Medium-Term Strategy

11. Following the agreement at its last meeting, the Committee welcomes the progress made in the reform of the IMF surveillance framework. It welcomes the steps to put greater focus on financial and capital market issues in the IMF's work. The Committee welcomes the multilateral consultation approach, which aims at fostering discussion and cooperation on common economic and financial issues. The Committee looks forward to the conclusions of the first multilateral consultation on global imbalances, and proposals by the Managing Director for possible further consultations and work on issues of multilateral concern. The Committee welcomes the ongoing review with a view to updating the 1977 Decision on Surveillance over Exchange Rate Policies to secure a common understanding and consensus on the responsibilities under Article IV and the foundations and objectives of surveillance, covering monetary, fiscal, financial, and exchange rate policies. The Committee takes note of the work to date by the Board on a remit for surveillance, which would provide a statement of objectives, priorities, and responsibilities for the medium term, and it looks forward to further work as part of the wider program to improve the effectiveness of surveillance. The Committee will discuss progress on the remit at its Spring meeting.

12. The Committee supports the strengthening of IMF policies to better assist its emerging market members. The Committee welcomes the recent discussion in the Executive Board on a new liquidity instrument for countries that are active in international capital markets, aimed at supporting these countries' own strong policies, and ensuring that substantial financing will be available if needed while safeguarding IMF resources. The Committee calls on the Executive Board to continue its work on the necessary design features of a new instrument, while paying due regard to the interaction with existing IMF facilities, and invites the Managing Director to present a concrete proposal by the time of its next meeting. The Committee also looks forward to the upcoming review of the IMF's policy on lending into arrears.

13. The Committee considers that the IMF should give priority to enhancing the effectiveness of its work in low-income countries by focusing on sustainable growth and macro-critical areas that support the achievement of the MDGs. It welcomes implementation of the MDRI by the IMF, World Bank, and African Development Bank; the provision of debt relief under the HIPC Initiative to two further countries (Cameroon and Malawi); and the decision to grandfather all eligible HIPCs when the sunset clause of the HIPC Initiative takes effect at end-2006. The Committee underscores the importance of helping countries reap the benefits of higher aid and debt relief, and avoid a new build-up of unsustainable debt. The Committee stresses that the debt sustainability framework jointly developed by the IMF and the World Bank is the primary tool to be used by borrowers and creditors in assessing alternative financing strategies, identifying emerging debt-related vulnerabilities, and developing coherent lending practices, and urges all creditors and borrowers to use the framework in their lending and borrowing decisions. The Committee urges all creditors to work with the IMF and the World Bank to adhere to responsible lending. The Committee looks forward to further refinements to the framework and the development of practical guidelines for borrowers and creditors.

14. At its next meeting, the Committee will consider further work on ways to enhance collaboration and clarify the division of responsibilities and accountabilities between the IMF and the World Bank, taking account of the work of the External Review Committee on World Bank-IMF Collaboration.

15. The Committee looks forward to the development of proposals for more predictable and stable sources of IMF income, in the context of the IMF's overall budgetary position. It looks forward to the recommendations of the Committee of Eminent Persons appointed by the Managing Director.

Other Issues

16. The Committee calls for closer cooperation between the IMF and Financial Action Task Force in promoting stronger implementation of international anti-money laundering and combating terrorist financing (AML/CFT) standards and encourages publication of comprehensive country evaluations.

17. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement.

18. The Committee welcomes the external evaluation of the Independent Evaluation Office (IEO). The IEO is continuing to make a valuable contribution to the IMF's learning culture and facilitating oversight and governance.

19. The Committee expresses its heartfelt appreciation to Anne Krueger for her exceptional contributions to a shared vision of a globalized economy providing equitable opportunities for all, and for serving the IMF and its membership with unwavering dedication and decisive intellectual leadership. It extends a warm welcome to John Lipsky, who has succeeded her as First Deputy Managing Director. The Committee also expresses its appreciation of the work of Raghuram Rajan as Economic Counsellor.

20. The next meeting of the IMFC will be held in Washington, D.C. on April 14, 2007.

Annex 4

Communiqués of the Development Committee of the Boards of Governors of the World Bank and International Monetary Fund

Washington, DC
April 23, 2006

1. Following the important commitments made last year to increase the quantity, quality and effective use of resources for development, we reviewed progress towards the Millennium Development Goals (MDGs) based on an assessment in the third annual Global Monitoring Report. We reaffirmed the principle of mutual accountability of developing countries, developed countries, and the international financial institutions for making progress on this agenda, focusing on aid, trade and governance. We also discussed clean energy and development, an issue that requires as a priority the attention of global policy makers.

2. We welcomed recent progress made in reducing income poverty, reflecting both a favorable global economic environment and improved economic management in many countries. We are encouraged that growth in Sub-Saharan Africa exceeded 5% for the third consecutive year. We recognized that progress is uneven and insufficient, particularly in Sub-Saharan Africa and in some regions of middle income countries (MICs). There are also signs of better progress towards the human development MDGs. Yet, on current trends many developing countries will fail to meet the MDGs, in particular those related to human development. Achieving rapid, sustained, and shared growth will require further actions to improve the business climate, access to infrastructure, enhanced market access and trade opportunities as well as measures to address issues of equity, including gender equity.

3. We welcomed the rising trend in the volume of official development assistance (ODA), not only from the OECD Development Assistance Committee members, but also from non-DAC countries. We called on all donors to fully implement the commitments they have made for substantial increases in aid volumes. We urged those donors that have not done so to make concrete efforts towards the target of 0.7 percent of GNI as ODA in accordance with their commitments. We noted progress made on the International Finance Facility for immunization and on Advance Market Commitments for vaccines, increased support for an airline ticket solidarity levy and its implementation by several countries, and continuing work on the scope for greater use of blending arrangements. We noted the key role of the World Bank and the IMF in helping countries ensure that increases in aid volumes can be absorbed effectively, consistent with macro-economic stability and growth objectives. We welcomed creation of the Exogenous Shocks Facility and Policy Support Instrument at the Fund, both of which help improve its flexibility in engaging with low-income countries.

   We also noted the rising trend of net private flows to developing countries, including remittances.

4. We called for rapid progress in implementing the framework agreed in the Paris Declaration for enhancing aid effectiveness through improved modalities and a stronger focus on results. Developing countries need to strengthen their management of financial resources, and improve their domestic resource mobilization as well as governance and delivery of basic services. Donors and other partners need to improve the quality of aid, modalities of aid delivery to reduce volatility, achieve greater predictability, and provide stronger alignment with national poverty reduction strategies. To this end, we encouraged donors where possible to move towards multiyear plans and commitments, and to be ready to finance recurrent costs where sector

policies are sound and fiduciary conditions are adequate. We asked the World Bank and other partners to intensify their coordination at the country level, particularly in strengthening health systems and improving access to good quality education, to reduce transaction costs and to help increase absorptive capacity. We emphasized the importance of universal access to primary education and sustained support for good quality education plans, and the key role the Education for All - Fast Track Initiative could play in all qualifying low income countries. We called on donors to fill the current financing gap. We asked for a progress report on Education for All by our next meeting. We encouraged the Bank to implement the proposal to hold annual Results and Resources Consultative Groups in its Africa Action Plan. We also emphasized the need for the multilateral development banks (MDBs) to strengthen their results orientation, so as to contribute better to improved country outcomes. We look forward to the first World Bank report on results monitoring and systems to strengthen both country and institutional incentives and assure learning from results. In this context, we urged all MDBs and all donors to step up support for strengthening statistical and related institutional capacity in partner countries.

5. We noted the importance of continued development progress in MICs and emerging market countries, and asked the Bank to refine and enhance its engagement strategy with these countries by our next meeting, taking into account their contributions to poverty reduction and global public goods, access to market financing, and remaining development challenges.

6. Promoting good governance, including fighting corruption, and mutual accountability are essential to efforts to achieve the MDGs. We agreed on the need for efforts to improve governance in all countries, to help build effective states with strong national systems and to work together on implementing global initiatives to improve governance, increase transparency and build demand for good governance at the country level in a way that strengthens ownership. The Bank and Fund should play a full supporting role. We asked the Bank to further develop disaggregated and actionable indicators in areas such as quality of public financial management, and procurement practices. We noted the diagnosis in the Global Monitoring Report that a significant level of corruption is a symptom of poor governance. Building on work over the last decade, we called on the Bank to lay out a broad strategy, to be discussed at our next meeting, for helping member countries strengthen governance and deepen the fight against corruption, working closely with the Fund, other multilateral development banks and the membership, to ensure a coherent, fair and effective approach. This strategy should lead to clear guidelines for operations.

7. We welcomed the progress made in implementing the Multilateral Debt Relief Initiative (MDRI) in the Fund, the International Development Association (IDA), and the African Development Fund, and, in particular, cancellation by the IMF of the MDRI debt of the first 19 countries, and, in the Bank, the approval of the required Resolution by the IDA Governors leading to final agreement on the Initiative. We urged donor countries to secure their financing commitments to achieve full compensation of IDA's foregone reflows and to ensure that this initiative is truly additional to existing commitments. We called on the Bank and the Fund in consultation with the membership to bring forward proposals to further refine the debt sustainability framework for low-income countries to support growth and avoid accumulation of unsustainable debt, and, in this context, to further elaborate and implement an effective approach to deal with the issue of "free-riding" where non-concessional lenders may indirectly obtain financial gain from IDA's grants and debt forgiveness. We called for participation of all export credit agencies, IFIs, and other official creditors, in such an approach and encouraged them to use the debt sustainability framework in their lending decisions. We also noted the final list of potentially eligible countries for the HIPC initiative and the initial cost estimate of debt relief for these countries.

8. Implementation of the Doha Development Agenda is a critical complement to other efforts to increase growth and reduce global poverty. After modest progress at the Hong Kong ministerial meeting in December 2005, we urged all WTO members to step up their efforts to reach a successful conclusion to the Doha Round by the end of this year. We welcomed a significant increase in donor commitments for aid for trade, and creation of a task force in the WTO to make recommendations on how to operationalize aid for trade, recognizing that this is a complement not a substitute for a successful Doha Round. We asked the Bank and the Fund to further examine cross-country and regional aid for trade needs by our next meeting and deepen their work to integrate trade-related needs into their support for country programs. We also asked the Bank and the Fund to continue their global advocacy on trade and development.
9. The global community faces a major challenge in securing affordable and cost-effective energy supplies to underpin economic growth and poverty reduction while preserving the environment. These need not be conflicting goals. We recognized lack of access to energy as an acute problem in many low income countries. We agreed to explore ways to help developing countries enhance their access to affordable, sustainable and reliable modern energy services over the long term, while paying attention to local and global environmental considerations. We also urged them to do so through policy reform to attract domestic and international investment in clean and efficient energy services. We also noted that adaptation to climate change for poor countries is a critical development issue. We reaffirmed our commitment to the goals of the United Nations Framework Convention on Climate Change. We found broad support for the Bank's approach in addressing 1) developing country energy needs and access to energy services, 2) efforts to control greenhouse gas emissions, and 3) helping developing countries adapt to climate risks, and the two track work program. We asked the Bank to review, in close coordination with other partners, existing financial instruments, taking into account the role of the private sector; and to explore the potential value of new financial instruments to accelerate investment in clean, sustainable, cost effective and efficient energy; so as to report on progress towards an investment framework by our next meeting. We urged member countries of the Global Environment Facility to conclude the fourth replenishment negotiation as soon as possible.
10. Avian Influenza poses a major risk for all countries but more particularly for developing countries. We called for continued coordination and planning by countries and agencies at the international and regional levels and, within countries, continued coordination across relevant ministries. We also welcomed the Bank's rapid operational response under the Global Program for Avian Influenza.
11. We welcomed the interim report on how fiscal policy can best support long term growth, and its emphasis on specific country experiences. We look forward to the final report in early 2007.
12. We noted the creation of the External Review Committee to review various aspects of Bank-Fund collaboration, and look forward to considering its findings and recommendations. We ask the Bank and Fund to ensure that their institutional responsibilities continue to cover all the critical issues relating to reaching the MDGs within their mandates.
13. We welcomed the discussion of quota and voice issues in the Fund, and confirmed our intention to continue our discussions with a view to building the necessary political consensus on the voice issue in the Bank.
14. We welcomed the new Chairman Alberto Carrasquilla. We thanked Zia Qureshi for his services as Interim Executive Secretary to the Committee and welcomed the appointment of Kiyoshi Kodera as new Executive Secretary.
15. The Committee's next meeting is scheduled for September 18, 2006 in Singapore.

Singapore
September 18, 2006

1. We met today to discuss progress in implementing the development agenda for achieving the Millennium Development Goals (MDGs). We reviewed the World Bank's proposed governance and anticorruption strategy, and the priorities for its evolving engagement with middle-income countries. We also celebrated the 50th anniversary of the International Finance Corporation, which has contributed to fostering sustainable private sector development and promoting market development in developing countries.

2. Building on five consecutive years of strong growth, policymakers in developing countries now need to prepare for a more challenging global environment. This will entail maintaining macroeconomic stability, further strengthening public sector financial management, and continuing to improve domestic resource mobilization. More also needs to be done to improve the business climate and governance.

3. The pledges made last year to substantially increase the volume of official development assistance (ODA), including a doubling of aid to Africa by 2010, must be delivered in a predictable manner. We urged those donors that have not done so to make concrete efforts towards the target of 0.7 percent of Gross National Income as ODA in accordance with their commitments. We look forward to a successful IDA 15 replenishment next year and urged donors to ensure that their commitments to make the multilateral debt relief initiative (MDRI) and the Heavily Indebted Poor Countries (HIPC) Initiative additional to other aid flows be met. We noted the substantial progress made on Advance Market Commitments for vaccines and the work in progress in order to launch a pilot project by the end of 2006. We also welcomed the launch of the International Financing Facility for Immunization and of the International Drug Purchase Facility. We asked the Bank, within its overall strategy, to develop a framework for its role in the provision of global and regional public goods including criteria for its involvement and financing modalities.

4. The international commitments to improve aid effectiveness embodied in the principles of the Paris Declaration must now be consistently translated into action at the country level. We called on the Bank to deliver on its commitments to scaling up and aid effectiveness, including the implementation of the best practice principles identified in the Bank's conditionality review. We noted the country-based "results and resources meetings" approach to facilitate scaling up aid now being piloted in several African countries with the help of the Bank and the Development Assistance Committee, and urged developing countries to prepare well-defined and costed programs for using scaled up aid to step up the poverty reduction effort. Noting the Bank's role in helping to ensure that additional assistance is effectively coordinated and aligned with country priorities, we asked for a progress report on the Bank's Africa Action Plan at our next meeting. We welcomed the Bank's Gender Action Plan to expand women's economic opportunities in developing countries. We also looked forward to hearing about progress towards achieving the gender MDGs in the next Global Monitoring Report.

5. We welcomed the progress report on Education for All-Fast Track Initiative (EFA-FTI), and the contribution it is making to increasing primary school completion rates. The initiative offers a promising approach to donor harmonization and scaling up at the sectoral level. We recognized the importance of country ownership and the quality of education, and the need to expand the initiative to larger countries and fragile states. We called for predictable and long-term funding for this initiative, including domestic funding. We also urged the Bank to strengthen its work on measurement of learning outcomes in order to ensure continuous attention to the quality of education. In this regard, we look forward to a further update on progress to the Board.

6. September 2006 marks the tenth anniversary of the HIPC Initiative. We welcomed the substantial reduction of debt stocks and noted the increase of poverty-reducing expenditures of the 29 HIPCs that have reached the decision point. We also welcomed the decision to allow the sunset clause to take effect at end-2006 and to grandfather the countries that are assessed to have met the HIPC criteria based on end-2004 data. We welcomed the implementation of the MDRI by the IMF, IDA and the African Development Fund. Debt relief has provided many low-income countries with additional resources that can be used to make progress towards the MDGs. We cautioned against excessive borrowing after the relief which may lead to re-emergence of debt distress. We therefore underscored the importance of the Joint Debt Sustainability Framework of the Fund and the Bank for low-income countries in helping ensure that new borrowing in post-MDRI countries does not undermine their long-term debt sustainability, and look forward to the review of the framework. We asked all the multilateral development banks, bilateral donors, export credit agencies and commercial creditors to adhere to this framework. We stressed the importance of implementing the Bank's approach to deal with the issue of free riding and the need to address the issues of official creditors' coordination. We also stressed the importance of Bank and IMF support for strengthening public financial management including, debt management.
7. The de facto suspension of the Doha negotiations represents a setback in our effort to make more rapid progress towards achieving the MDGs. We re-emphasized the importance of the multilateral trading system and called upon all WTO members to avoid backsliding and provide trade ministers with the necessary flexibility to resume the negotiations by the end of the year. We also called on the Bank and the Fund to continue their global advocacy role on trade and development, and to foster the integration of trade into country programs. While recognizing that aid for trade is not a substitute for trade liberalization, we reiterated our commitment to expanding the funding and strengthening the mechanisms for Aid for Trade. We welcomed the recommendations of the WTO Task Forces on Aid for Trade and the Integrated Framework (IF), both of which explicitly recognize the need to adhere to the Paris Declaration on aid effectiveness. We took note of the new governance mechanisms proposed for the enhanced IF, and reiterated the importance of working through established channels with proven development expertise. We noted the interest in extending a similar process to other poor countries that are not Least Developed Countries. We urged the Bank to work with these countries to incorporate trade needs into their national development strategies. We also agreed on the need to improve existing instruments to address cross-country and regional projects and strengthen the monitoring of regional initiatives and funding.
8. Actions to promote good governance are crucial to successful development and poverty reduction, and helping member countries on these issues is therefore important to the Bank's mission and to achieving the MDGs. Tackling corruption effectively and firmly is a significant part of this. The principal objective of the Bank's governance work should be to help develop capable and accountable states to deliver services to the poor, promote, private sector led growth and tackle corruption effectively. We supported the Bank's engagement in governance and anticorruption work. Country ownership and leadership are key to successful implementation. Governments are the key partners of the Bank in governance and anticorruption programs, while, within its mandate, the Bank should be open to involvement with a broad range of domestic institutions taking into account the specificities of each country. We also emphasized that predictability, transparency, and consistent and equal treatment across member countries are the Bank's guiding principles. In stepping up attention to governance and anticorruption in Country Assistance Strategies, we asked the Bank to further develop and use disaggregated and actionable indicators, recognizing that IDA resources will continue to be allocated through the existing

Country Performance and Institutional Assessment and Performance Based Allocation system. We recognized that the strategy will evolve with implementation and in the light of experience, but the paper sets out a framework for continued Bank engagement in this work and the further consultation which is planned with partner countries, with the Fund and with other donors and multilaterals, with civil society, and with the private sector. Given the importance of this issue, we stressed the importance of Board oversight of the strategy as it is further developed and then implemented, and we look forward to a report from the Board at our next meeting.

9. Middle income and emerging market countries (MICs), partner countries of the IBRD, are home to 70% of the world's poor. They constitute an extremely diverse group of countries. While many of them have made dramatic improvements in economic management and governance over the past two decades, as a group they still face major challenges of poverty reduction and development and in their contribution to provision of important regional and global public goods. We strongly endorsed the statement of the Bank's corporate role and mission to eradicate poverty in its partnership with MICs. We reviewed the Bank's proposals to strengthen the IBRD's value-added and engagement in response to the evolving and diverse needs of middle-income countries. We recognized that as MICs develop they will eventually graduate from IBRD lending. We also noted that in parallel, in implementing its medium-term strategy, the IMF is making efforts to adapt, better focus, and enhance its engagement with emerging market countries. We welcomed the Bank's proposals to deliver better and more flexible country partnership strategies reflecting diverse country circumstances; to reduce the cost of doing business with the Bank by streamlining internal Bank procedures; to simplify loan pricing and make its products more competitive; to develop new ways to help countries facing external shocks; to increase provision of fee based expert services, unbundled from lending; to continue to work towards scaling up Bank Group lending to sub-national entities within frameworks agreed with national governments; and to better exploit synergies between the different arms of the Bank Group within their respective mandates. Increasing the use of country systems where mutually agreed and verifiable standards are in place to ensure effective execution is an important part of this agenda for scaling up development impact. We encouraged the Bank to give greater emphasis to issues of regional and global concern in areas where it has a comparative advantage. We also called for deeper cooperation between the Bank, regional development banks and other development partners in their engagement with MICs, and encouraged the Bank to develop a menu of options to respond to country demand-driven initiatives for targeted blending of concessional donor support with multilateral development bank loans in cases of market failure or where there are affordability issues.

10. We welcomed the progress made in developing a Clean Energy Investment Framework, including the review of the adequacy of existing financial instruments. The global community faces a major challenge in securing affordable and cost-effective energy supplies to underpin economic growth and poverty reduction while preserving the local and global environment. We agreed that this challenge requires sound country energy policies and regulatory frameworks. We found broad support for the Bank's approach in addressing the three inter-related issues of: (i) energy for development and access to affordable energy for the poor; (ii) the transition to a low carbon economy; and (iii) adaptation, and support continued work on each of them. In particular, we recognized lack of access to energy as an acute problem in many low income countries, especially in Sub Saharan Africa, supported the Action Plan for improved energy access and urged donors to provide additional funding and other assistance required. We encouraged activities that cost-effectively and sustainably promote the transition to a low-carbon economy, respecting circumstances of individual economies, without hindering the growth of developing countries and mitigating the incremental costs to them. We asked the Bank to work with the

regional development banks, United Nations agencies, the Global Environment Facility (GEF), private sectors and other interested parties to maximize the use of existing instruments. We support further examination of the future Bank role in the transition to a lower-carbon economy, taking into account all issues raised in the progress report and recognizing the primary institutional responsibility of the UN Framework Convention Climate Change. We asked the Bank, in close coordination with the GEF, to continue to work on further exploring financing options to support investment in clean energy for development. We welcomed the Bank's proposal to consider new means and mechanisms to make pricing of existing instruments more transparent and competitive to provide incentives and resources to countries to pursue clean energy alternatives. We also stressed the need to develop strategies, tools and financing to help meet the challenge of adaptation to increased climate variability, which can adversely affect the livelihoods of people, especially the poor, and undermines the achievement of the MDGs. We noted the value of protecting future investments from climate volatility.

11. We look forward to considering the findings of the External Review Committee to review various aspects of Bank-Fund collaboration. We asked the Bank and the Fund to ensure that their institutional responsibilities continue to cover all the critical issues relating to reaching the MDGs within their mandates.

12. We welcomed the Managing Director's report on progress made in the reform of IMF quotas and voice. Acknowledging the measures already taken by the Bank to enhance capacity in EDs' offices and capitals of developing and transition countries, we asked the Bank to work with its shareholders to consider enhancement in voice and participation in the governance of the Bank.

13. We wish to thank the authorities and people of Singapore for their excellent hospitality and facilities.

14. The Committee's next meeting is scheduled for April 15, 2007 in Washington, D.C.

Annex 5

Operational Highlights and Key Financial Indicators for the Bretton Woods Institutions

International Monetary Fund[5]

IMF-related assets declined by 10 per cent in FY2006 compared to FY2005, reflecting the recent decline in outstanding credit to member countries. The table of IMF resource flows illustrates that the flow of repayments was larger than the flow of disbursements; the table of outstanding IMF credit shows the distribution of the impacts of these repayments.

Official Holdings of Reserve Assets as of April 30

	FY2005	FY2006[1]
	(billions of SDRs)	
Reserve positions in the Fund	28.6	22.2
SDRs	20.1	17.3
Foreign exchange	2,918.8	3,014.6
Gold	316.6	355.2
Total	**3,284.0**	**3,409.3**

[1] As of March 2006

IMF Resource Flows (January 1 to December 31)

	FY2005	FY2006
	(billions of SDRs)	
Total purchases	2.7	2.9
Of which:		
General Resources Account (GRA)	2.3	2.4
Poverty Reduction and Growth Facility (PRGF)	0.4	0.5
Total repurchases	30.1	23.9
Net purchases	-27.4	-21.0

Outstanding Credit by Facility and Policy as of April 30

	FY2005	FY2006
	(millions of SDRs)	
Stand-By Arrangement	35,818	11,666
Extended arrangements	9,365	7,477
Supplemental Reserve Facility	4,569	–
Compensatory and Contingency Financing Facility	84	84
Systemic Transformation Facility	18	–
Subtotal GRA	**49,854**	**19,227**
Structural Adjustment Facility arrangements	45	9
PRGF arrangements	6,588	3,819
Trust Fund	89	89
Total	**56,576**	**23,144**

[5] All data in this section can be found in the IMF annual reports.

The remainder of the tables in this annex are an overview of consolidated balance sheets and related consolidated statements of income, changes in reserves and resources and cash flows.

The IMF conducts its operations and transactions through the General Department and the Special Drawing Rights Department (the SDR Department). The General Department consists of the General Resources Account (GRA), the Special Disbursement Account (SDA), including the Multilateral Debt Relief Initiative-I Trust (MDRI-I Trust), over which the SDA has substantial control, and the Investment Account.

General Department. The GRA holds the general resources of the IMF, which reflect the payment of quota subscriptions, use and repayment of IMF credit, collection of charges on the use of credit, payment of remuneration on creditor positions, borrowings, and payment of interest and repayment of borrowings. The assets and resources of the SDA are held separately from the GRA and the Investment Account. The SDA is the vehicle for receiving and investing profits from the sale of the IMF's gold and for making transfers to other accounts for special purposes authorized in the Articles, in particular for financial assistance on special terms to low-income members of the IMF. Transfers to the Investment Account from the GRA were approved on April 30, 2006, and were made subsequent to FY2006.

Special Drawing Rights Department. The SDR is an international interest-bearing reserve asset created by the IMF. All transactions and operations involving SDRs are conducted through the SDR Department. SDRs may be allocated by the IMF, as a supplement to existing reserve assets, to members participating in the SDR Department. The resources of the SDR Department are held separately from the assets of all the other accounts of, or administered by, the IMF. They may not be used to meet the liability, obligations or losses of the Fund incurred in the operations of the General Department or other accounts. However, the SDR Department reimburses the General Department for expenses incurred in conducting the business of the SDR Department.

The IMF also administers trusts and accounts established to perform financial and technical services and financial operations consistent with the purposes of the IMF. Members or the IMF contribute the resources of these trusts and accounts through the SDA. With the exception of the MDRI-I Trust, whose financial statements are consolidated with those of the General Department, the financial statements of the SDR Department and these trusts and accounts are presented separately. More details on the purpose and administration of these accounts are available in the 2006 IMF Annual Report.

Highlights of IMF Financial Statements

General Department	FY2005	FY2006
	(millions of SDRs)	
Total assets	223,755	221,721
Net income (loss)	461	(2,320)
Administrative expenses	673	693
Usable currencies and SDRs at end of FY	122,963	154,773

SDR Department	FY2005	FY2006
	(millions of SDRs)	
Total assets	8,213	8,332
Revenue	175	247
Expenses	175	247
Administrative expenses	1.5	1.2
Net income	–	–
Total receipts of SDRs	10,632	13,005
Total uses of SDRs	10,632	13,005
Cash flows from operating activities	–	–
Total holdings at end of FY	21,522	21,469

Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust	FY2005	FY2006
	(millions of SDRs)	
Total assets	12,460	9,479
Resources	4,994	4,449
Net income (loss)	68,696	(545,765)
Cash and cash equivalents at end of FY	1,946	747
Loan disbursements	(771)	(403)
Loan repayments	882	3,171

PRGF-HIPC Trust and Related Accounts	FY2005	FY2006
	(millions of SDRs)	
Total assets	1,211	1,251
Resource balance at end of FY	599	640
Cash and cash equivalents at end of FY	503	347

Multilateral Debt Relief Initiative-II Trust	FY2005	FY2006
	(millions of SDRs)	
Total assets	n/a	69
Balance at end of FY	n/a	–
Cash and cash equivalents at end of FY	n/a	44

World Bank Group[6]

Operational highlights and key financial indicators for World Bank Group associations are summarized in the following table. As shown in the table, World Bank Group operations continued to grow during fiscal year 2006 (ending June 30, 2006). The IBRD increased its lending commitments by 3.5 per cent and IDA increased its concessional lending activities by 9 per cent in FY2006 compared to FY2005. The IFC increased private sector investment activities by 11 per cent and MIGA increased its political insurance activities by 6 per cent in FY2006 compared to FY2005.

World Bank Group institutions all continue to maintain strong financial positions. The IBRD achieved a return on average assets of 0.8 per cent in FY2006 and maintained a sustainable debt-to-equity ratio that grew 2.7 per cent to 33 per cent in FY2006. IDA posted operating losses in FY2006 due to a change in the way operating income is calculated. As of FY2005, development grants are charged to income upon approval by IDA's Executive Directors rather than upon signing of the grant agreement by the recipient country. IDA total sources of development resources declined in FY2006 due to increased provisions for debt relief through the Heavily Indebted Poor Countries Debt Initiative and the MDRI. The IFC continues to grow rapidly and posted a strong return on investment of 3.6 per cent in FY2006 compared to 5.4 per cent in FY2005. Compared to FY2005, MIGA maintained nearly constant risk levels in its underwriting activities and continued to make a sustainable return on operating capital before provisions of 2 per cent.

Operational Highlights and Key Financial Indicators for World Bank Group Associations

International Bank for Reconstruction and Development	FY2005	FY2006
	(millions of US dollars)	
Administrative expenses	1,021	1,055
Operating income	1,320	1,740
Total assets	222,008	212,326
Cumulative commitments	407,200	420,200
Fiscal-year commitments	13,661	14,135
Number of projects	118	112
Gross disbursements	9,722	11,833
Principal repayments including prepayments	14,809	13,600
Net disbursements	(5,087)	(1,767)
Return on average assets[1] (per cent)	0.6	0.8
Equity-to-loans ratio (per cent)	30.3	33

6 All data in this section can be found in the World Bank annual reports.

Operational Highlights and Key Financial Indicators for World Bank Group Associations *(cont'd)*

International Development Association	FY2005	FY2006
	(millions of US dollars)	
Administrative expenses	891	954
Operating income (loss)	(986)	(2,043)
Total applicacations of development resources	130,378	102,871
Cumulative commitments	161,000	170,000
Fiscal-year commitments	8,696	9,506
Number of projects	160	167
Gross disbursements	8,950	8,910
Principal repayments	1,620	1,680
Net disbursements	7,330	7,230

International Finance Corporation	FY2005	FY2006
	(millions of US dollars)	
Administrative expenses	403	436
Operating income	1,953	1,409
Total assets	39,560	38,420
Committed portfolio	24,600	21,600
Fiscal-year commitments	5,400	6,700
Number of projects	236	284
Loan and equity investments, net	11,489	12,731
Return on average assets[1] (per cent)	5.4	3.6
Debt-to-equity ratio	1.8	1.5

Multilateral Investment Guarantee Agency	FY2005	FY2006
	(millions of US dollars)	
Administrative and other expenses	32.3	31.3
Operating income	24.1	17.2
Total assets	1,198	1,282
Statutory underwriting capacity		10,216
Cumulative guarantees issued	14,700	16,000
Fiscal-year guarantees issued	1,226	1,302
Number of projects	41	41
Net exposure[2]	3,138	3,310
Operating capital/net exposure (per cent)	26.4	26.1
Return on operating capital, before provisions (per cent)	2.9	2.0

[1] Return on average assets is defined as operating income for the fiscal year as a percentage of the average of total assets at the end of such fiscal year and the previous fiscal year.

[2] Net exposure is maximum aggregate liability less reinsurance.

Annex 6

Active IMF Lending Arrangements—As of December 31, 2006

Member	Date of Arrangement	Expiration Date	Amount Approved	Undrawn Balance
		(in SDR millions)		
Stand-by Arrangements—Total			**7,792**	**3,872**
Bulgaria	August 6, 2004	March 31, 2007	100	100
Dominican Republic	January 31, 2005	May 31, 2007	438	193
Iraq	December 23, 2005	March 22, 2007	475	475
Macedonia, former Yugoslav Republic of	August 31, 2005	August 30, 2008	52	41
Paraguay	May 31, 2006	August 31, 2008	65	65
Turkey	May 11, 2005	May 10, 2008	6,662	2,998
Extended Fund Facility Arrangements—Total			**9**	**6**
Albania	February 1, 2006	January 31, 2009	9	6
Poverty Reduction and Growth Facility—Total			**1,809**	**819**
Afghanistan, Islamic Republic of	June 26, 2006	June 25, 2009	81	81
Albania	February 1, 2006	January 31, 2009	9	6
Armenia, Republic of	May 25, 2005	May 24, 2008	23	10
Bangladesh	June 20, 2003	June 19, 2007	400	84
Benin	August 5, 2005	August 4, 2008	6	4
Burundi	January 23, 2004	September 30, 2007	69	14
Cameroon	October 24, 2005	October 23, 2008	19	13
Central African Republic	December 22, 2006	December 21, 2009	36	36
Chad	February 16, 2005	February 15, 2008	25	21
Congo, Republic of	December 6, 2004	June 5, 2008	55	31
Georgia	June 4, 2004	June 3, 2007	98	28
Grenada	April 17, 2006	April 16, 2009	11	9
Haiti	November 20, 2006	November 19, 2009	74	46
Honduras	February 27, 2004	February 26, 2007	71	31
Kenya	November 21, 2003	February 28, 2007	225	150
Kyrgyz Republic	March 15, 2005	March 14, 2008	9	4
Madagascar	July 21, 2006	July 20, 2009	55	47
Malawi	August 5, 2005	August 4, 2008	38	23
Mali	June 23, 2004	June 22, 2007	9	3
Mauritania	December 18, 2006	December 17, 2009	16	16
Moldova, Republic of	May 5, 2006	May 4, 2009	111	67
Mozambique	July 6, 2004	July 5, 2007	11	3
Nepal	November 19, 2003	November 18, 2007	50	21
Niger	January 31, 2005	January 30, 2008	26	9
Rwanda	June 12, 2006	June 11, 2009	8	7
São Tomé and Príncipe	August 1, 2005	July 31, 2008	3	2
Sierra Leone	May 10, 2006	May 9, 2009	31	22
Tanzania	August 16, 2003	August 15, 2007	20	3
Zambia	June 16, 2004	June 15, 2007	220	28
Grand Total			**9,610**	**4,697**

Source: www.imf.org/external/fin.htm.

Annex 7

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2006, by Country (July 1, 2005–June 30, 2006)

	IBRD loans		IDA loans		Total loans	
	No.	Amount	No.	Amount	No.	Amount
			(millions of US dollars)			
Afghanistan		–	6	240.0	6	240.0
Africa - Regional		–	5	537.5	5	537.5
Albania		–	3	35.4	3	35.4
Argentina	7	785.0		–	7	785.0
Armenia		–	5	66.3	5	66.3
Azerbaijan	1	200.0	4	105.8	5	305.8
Bangladesh		–	4	461.5	4	461.5
Belarus	1	50.0		–	1	50.0
Benin		–	2	66.0	2	66.0
Bhutan		–	1	15.0	1	15.0
Bosnia and Herzegovina		–	2	51.0	2	51.0
Brazil	12	1,676.3		–	12	1,676.3
Burkina Faso		–	4	196.6	4	196.6
Burundi		–	1	30.6	1	30.6
Cambodia		–	1	14.0	1	14.0
Cameroon		–	2	56.5	2	56.5
Cape Verde		–	1	10.0	1	10.0
Chile	3	60.1		–	3	60.1
China	11	1,454.3		–	11	1,454.3
Colombia	4	423.4		–	4	423.4
Costa Rica	1	30.0		–	1	30.0
Croatia	5	369.8		–	5	369.8
Democratic Republic of Congo		–	3	365.0	3	365.0
Djibouti		–	2	17.0	2	17.0
Dominican Republic	1	25.0		–	1	25.0
Ecuador	2	150.0		–	2	150.0
Egypt, Arab Republic of	3	779.6		–	3	779.6
El Salvador	3	206.0		–	3	206.0
Ethiopia		–	5	504.7	5	504.7
Gabon		–	2	40.0	2	40.0
Gambia, The		–	1	8.0	1	8.0
Georgia		–	4	35.0	4	35.0
Ghana		–	5	355.0	5	355.0
Grenada		–	1	3.5	1	3.5
Guatemala	3	179.0		–	3	179.0
Guinea		–	2	14.2	2	14.2
Guinea-Bissau		–	1	15.0	1	15.0

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2006, by Country (July 1, 2005–June 30, 2006) *(cont'd)*

	IBRD loans		IDA loans		Total loans	
	No.	Amount	No.	Amount	No.	Amount
			(millions of US dollars)			
Guyana		–	2	20.9	2	20.9
Haiti		–	3	56.0	3	56.0
Honduras		–	4	97.0	4	97.0
India	2	700.0	5	716.0	7	1,416.0
Indonesia	2	480.0	2	205.0	4	685.0
Iraq		–	2	235.0	2	235.0
Jamaica		–	1	29.3	1	29.3
Kazakhstan	2	130.0		–	2	130.0
Kenya		–	1	25.0	1	25.0
Kosovo		–	1	5.5	1	5.5
Kyrgyz Republic		–	3	38.0	3	38.0
Lao, People's Democratic Republic		–	4	37.0	4	37.0
Lesotho		–	1	6.5	1	6.5
Liberia		–	1	30.0	1	30.0
Macedonia, former Yugoslav Republic of	4	86.8		–	4	86.8
Madagascar		–	3	239.8	3	239.8
Malawi		–	3	110.0	3	110.0
Maldives		–	2	7.0	2	7.0
Mali		–	3	131.4	3	131.4
Mauritania		–	1	10.0	1	10.0
Mexico	9	1,793.0		–	9	1,793.0
Moldova		–	4	42.8	4	42.8
Mongolia		–	3	26.0	3	26.0
Morocco	4	440.0		–	4	440.0
Mozambique		–	5	200.5	5	200.5
Nicaragua		–	3	79.0	3	79.0
Niger		–	2	85.0	2	85.0
Nigeria		–	3	422.0	3	422.0
Pakistan	4	315.0	12	1,182.7	16	1,497.7
Paraguay		–	1	22.0	1	22.0
Peru	4	275.0		–	4	275.0
Phillipines	3	410.0		–	3	410.0
Poland	2	269.0		–	2	269.0
Romania	3	248.5		–	3	248.5
Russian Federation	2	150.0		–	2	150.0
Rwanda		–	2	75.0	2	75.0
Senegal		–	4	135.1	4	135.1
Serbia and Montenegro		–	3	89.0	3	89.0
Sierra Leone		–	1	44.0	1	44.0
Slovak Republic	1	1.5		–	1	1.5

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2006, by Country (July 1, 2005–June 30, 2006) *(cont'd)*

	IBRD loans		IDA loans		Total loans	
	No.	Amount	No.	Amount	No.	Amount
			(millions of US dollars)			
Sri Lanka		–	2	160.0	2	160.0
Tajikistan		–	5	44.0	5	44.0
Tanzania		–	9	751.0	9	751.0
Timor-Leste		–	2	7.5	2	7.5
Tunisia	2	114.0		–	2	114.0
Turkey	6	1525.4		–	6	1525.4
Uganda		–	3	235.0	3	235.0
Ukraine	3	500.7		–	3	500.7
Vietnam		–	8	767.7	8	767.7
Yemen, Republic of		–	3	115.0	3	115.0
Zambia		–	3	87.2	3	87.2
Bank-wide total	**110**	**13,827.4**	**187**	**9,813.5**	**297**	**23,641.2**

Annex 8

IBRD Loans and IDA Credits—Summary Statistics for Fiscal Year 2006 (July 1, 2005–June 30, 2006)

By Area	IBRD Amount	IDA Amount	Total No.	Total Amount
	(millions of US dollars)			
Africa	0.0	4,786.6	79	4,786.6
East Asia and Pacific	2,344.3	1,057.2	36	3,401.5
Europe and Central Asia	3,531.7	512.8	64	4,044.5
Latin America and the Caribbean	5,602.8	307.7	64	5,910.5
Middle East and North Africa	1,333.6	367.0	16	1,700.6
South Asia	1,015.0	2,782.2	38	3,797.2
Total	13,827.4	9,813.5	297	23,641.2

By Theme	Total Amount
Economic Management	213.8
Environmental and Natural Resources Management	1,387.3
Financial and Private Sector Development	6,137.8
Human Development	2,600.1
Public Sector Governance	3,820.8
Rule of Law	757.6
Rural Development	2,215.8
Social Development, Gender and Inclusion	1,094.1
Social Protection and Risk Management	1,891.7
Trade and Integration	1,610.9
Urban Development	1,911.2
Total	23,641.2

Annex 9

World Bank Procurement From Canada

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2006

	IBRD	IDA	Total
	Amount	Amount	Amount
	(millions of US dollars)		
By Fiscal Year			
1997–98	82	32	114
1998–99	69	37	106
1999–00	73	22	95
2000–01	45	15	60
2001–02	48	16	64
2002–03	41	20	61
2003–04	41	30	71
2004–05*	56	35	91
2005–06*	24	14	38

* As of fiscal year 2005, data reflects goods and service contracts awarded and not payments.

IBRD Loans and IDA Credits to Developing Countries

	IBRD loans		IDA loans		Total	
	No.	Amount	No.	Amount	No.	Amount
			(millions of US dollars)			
By Fiscal Year						
1997–98	151	21,086	135	7,507	286	28,594
1998–99	131	22,182	145	6,811	276	28,994
1999–00	97	10,918	126	4,357	223	15,276
2000–01	91	10,487	134	6,763	225	17,250
2001–02	96	11,451	133	8,067	229	19,519
2002–03	99	11,230	141	7,282	240	18,513
2003–04	87	11,045	158	9,034	245	20,080
2004–05	118	13,610	160	8,696	278	22,307
2005–06	112	13,661	167	8,950	279	23,085

Note: Joint IBRD/IDA operations are counted once as IBRD operations. When more than one loan is made for a single project, the operation is counted only once.

Canada at the IMF and World Bank

2007

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Canada

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A Word From the Minister

I am pleased to present *Canada at the IMF and World Bank 2007: A Report on Operations Under the Bretton Woods and Related Agreements Act*. This report contains a summary of Canada's engagement at the International Monetary Fund (IMF) and World Bank in 2007 as well as our priorities for the future.

Building on the many improvements made to the content and presentation of last year's report, the 2007 document sets new standards for transparency and accountability. It clearly lays out Canada's medium-term priorities for the IMF and World Bank as well as the Government of Canada's strategy over the next three years to support these priorities. Building on Canadian accomplishments in 2007, the medium-term priorities focus on three areas where Canada can make a real difference, in line with our government's core principles:

1) Governance and Accountability.

2) Institutional Effectiveness.

3) Sustainable Poverty Reduction and Growth.

To make it more accessible to Canadians, the 2007 report has a new, more user-friendly format. The report includes improved descriptions of the IMF and World Bank that serve as a useful introduction for new readers, along with a concise summary of the specific Canadian approaches and actions planned at each institution.

Since 1944, the Bretton Woods Institutions have led international efforts to support a stable world monetary system and promote greater global development. In uncertain economic times like these, the world needs a strong and effective IMF—a more representative institution better able to monitor and respond to global crises. The World Bank, in turn, has a complementary and equally important mandate on poverty reduction.

It is my hope that this report will provide Parliamentarians and all Canadians with a full understanding of the important role Canada plays in making the IMF and World Bank more effective, efficient and accountable institutions.

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance

Acronyms Used in This Report

ADB	African Development Bank
AMC	Advance Market Commitment
ARTF	Afghanistan Reconstruction Trust Fund
BWIs	Bretton Woods Institutions
CAO	Compliance Advisor Ombudsman
CAS	Country Assistance Strategy
CCL	Contingent Credit Line
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CEIF	Clean Energy Investment Framework
CGIAR	Consultative Group on International Agricultural Research
CIDA	Canadian International Development Agency
DC	Development Committee
DSF	Debt Sustainability Framework
EFA-FTI	Education for All Fast Track Initiative
ESAF	Enhanced Structural Adjustment Facility
ESF	Exogenous Shocks Facility
G7	Group of Seven
G8	Group of Eight
G20	Group of Twenty
GAC	Governance and Anti-Corruption
GAVI	Global Alliance for Vaccines and Immunization
GDP	gross domestic product
GEF	Global Environment Facility
GFATM	Global Fund to Fight Aids, Tuberculosis and Malaria
GFSR	*Global Financial Stability Report*
GPG	global public good
GRA	General Resources Account
HIPC	heavily indebted poor country
HNP	health, nutrition, and population
IAE	International Assistance Envelope
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IEG	Independent Evaluation Group

IEO	Independent Evaluation Office
IFC	International Finance Corporation
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
INT	Department of Institutional Integrity
IRFFI	International Reconstruction Fund Facility for Iraq
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MDTF	Multi-Donor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
NCBP	Non-Concessional Borrowing Policy
OECS	Organisation of Eastern Caribbean States
PBGI	Performance-Based Grants Initiative
PDMAS	Programme de Développement des Marchés Agricoles du Sénégal (Development Program for Agricultural Markets in Senegal)
PPP	purchasing power parity
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PSIA	Poverty and Social Impact Analysis
QAG	Quality Assurance Group
RTAC	Regional Technical Assistance Center
SAF	Structural Adjustment Facility
SDR	Special Drawing Right
SPP	Statement of Surveillance Priorities
StAR	Stolen Asset Recovery initiative
TF	Transfer Fund
UN	United Nations
UNCAC	United Nations Convention Against Corruption
WEO	*World Economic Outlook*

Executive Summary

Membership at the International Monetary Fund (IMF) and the World Bank provides Canada with a valuable opportunity to participate in decisions related to international monetary stability and global poverty reduction. As the IMF's ninth largest shareholder and the World Bank's seventh largest shareholder, Canada has a strong voice and a responsibility to help these institutions remain relevant and effective.

As in past years, the aim of this report is to provide Canadians with an understanding of how the Government of Canada is contributing to the development of IMF and World Bank policies.

This year's report has three main components:

1) A basic introduction to the IMF and World Bank, including information on how they operate, what they do, and how Canada participates in their governance (see the sections "Canada and the Bretton Woods Institutions: Mandates and Operations," "An Introduction to the International Monetary Fund" and "An Introduction to the World Bank").
2) Canada's activities in 2007, including progress on the priorities laid out in the 2006 edition of this report and Canada's involvement in other major developments at the institutions (see the sections "Canada at the IMF: What Happened in 2007" and "Canada at the World Bank: What Happened in 2007").
3) Canada's medium-term priorities, describing where Canada plans to concentrate its efforts and advocacy over the next three years, including measurable deliverables (see the sections "Canada's Medium-Term Priorities at the Bretton Woods Institutions" and "Summary of Canada's Medium-Term Priorities at the Bretton Woods Institutions").

Canada's Activities in 2007

At the IMF

As laid out in the section "Canada at the IMF: What Happened in 2007," Canadian priorities at the IMF in 2007 focused on efforts to reform the institution's governance, operational and financial structures. Canada has been very active in the reform process, leading the debate on quota and voice reforms to realign voting shares and give greater voice to dynamic developing country members. Canada has also promoted reforms to improve the effectivess of IMF surveillance of member economies. The need to cut spending, focus IMF outputs and raise new sources of income has become another key area of action over recent months. Successes have been mixed, but overall the IMF is making progress in efforts to increase its legitimacy, credibility and effectiveness.

Other 2007 developments at the IMF include the selection of a new Managing Director, under an improved, more transparent selection process that Canada championed, and the release of three new Independent Evaluation Office studies regarding the effectiveness of IMF work in selected areas.

At the World Bank

As described in the section "Canada at the World Bank: What Happened in 2007," Canada had two main priorities at the World Bank in 2007. The first was to use the opportunity presented by the financial replenishment of the Bank's International Development Association (IDA) to push for enhanced support for fragile states, debt sustainability and a focus on results. During these replenishment discussions, Canada and other donors proposed a number of important enhancements to the Bank's support for fragile states, debt sustainability, a better focus on results and effectiveness, and climate change that will be implemented by the Bank over the next three years.

The second priority was to further promote debt sustainability, including through clearance of large debt arrears that certain low-income countries accumulated during long periods of conflict. In 2007, Canada and other Group of Eight (G8) countries played a leading role in organizing the clearance of US$1.5 billion in arrears owed by Liberia to the IMF, World Bank and African Development Bank. This was the first case of large-scale arrears clearance by the international community and will help pave the way for other cases in the future, including for Côte d'Ivoire and Sudan.

Other major developments at the World Bank during 2007 included the election of a new President, the introduction of new policies and strategies on governance and anti-corruption, health and clean energy, as well as the launch of two innovative development initiatives in which Canada played a leading role: the Advance Market Commitment and the Caribbean Catastrophe Risk Insurance Facility. Canada's involvement in these discussions is described in the section "Canada at the World Bank: What Happened in 2007."

Canada's Medium-Term Priorities

Canada's medium-term priorities at the IMF and World Bank can be grouped under three broad themes:

1) **Governance and Accountability**—including internal governance reforms to improve the voice of middle-income and developing countries at both institutions, financial sustainability and more transparency.

2) **Institutional Effectiveness**—including improvements to the IMF's surveillance function, more effective aid and innovative development initiatives to promote private sector participation in development.

3) **Sustainable Poverty Reduction and Growth**—including enhanced support for debt sustainability, fragile states, gender equality and environmental sustainability.

Specific actions to be taken in support of these priorities are described in the sections "Canada's Medium-Term Priorities at the Bretton Woods Institutions" and "Summary of Canada's Medium-Term Priorities at the Bretton Woods Institutions." Anticipated timelines, ranging from one to three years, are listed for each action. Subsequent reports will assess progress against these priorities.

Canada and the Bretton Woods Institutions: Mandates and Operations

The IMF and the World Bank

- While the IMF and the World Bank were both founded at the Bretton Woods conference in 1944, they are separate institutions.
- The IMF aims to maintain a stable international monetary system, thereby facilitating international trade and investment and the prosperity these bring to all the world's economies.
- The World Bank provides support to developing countries and is committed to poverty reduction.
- Their complementary mandates contribute to sustainable economic growth and the alleviation of global poverty.

The International Monetary Fund (IMF) and the World Bank were founded at the United Nations Monetary Conference held at Bretton Woods, New Hampshire in 1944. They were created to promote reconstruction following the devastation of the Second World War and to establish the basis for a stable world monetary system that would sustain growth and prosperity. Together they are informally known as the Bretton Woods Institutions.

Canada is the ninth largest member of the IMF and the seventh largest member of the World Bank, out of a total membership of 185 in both institutions. These strong membership positions give Canada an important voice in the two leading international institutions devoted to promoting international financial stability and poverty reduction. Canada's status as a member and leading donor also contributes to Canada's strong position on the international stage.

The IMF and World Bank are governed by their member countries. The management and staff of each institution are accountable to their members through their respective Boards of Governors and Boards of Executive Directors. They also report on their performance to members and the general public through annual reports, policy documents, country reports and analytical studies.

The IMF and the World Bank each have a separate Board of Governors, comprising 185 governors representing each member country. Each Board is the highest authority governing these institutions. They are responsible for core institutional decisions and meet once a year at the IMF and World Bank Annual Meetings. The Minister of Finance is Canada's Governor for both the IMF and the Bank.

The Boards of Governors have two sub-committees: the International Monetary and Financial Committee (IMFC),[1] which advises on global monetary and financial issues for the IMF, and the Development Committee (DC),[2] which advises on critical development issues for both the IMF and World Bank. IMFC and DC Meetings are held twice a year during the IMF and World Bank Spring Meetings and Annual Meetings. Twenty-four governors sit on each committee. When participating in the IMFC and DC, Canada's Minister of Finance represents a constituency that includes Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Guyana,[3] Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

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[1] Reports to the IMF's Board of Governors.

[2] Reports to the IMF and World Bank's Boards of Governors.

[3] The constituency includes Guyana for the DC only.

Table 1
Canadian Influence at the IMF and World Bank

The Canadian Government makes its views known through a number of channels:

Governor's statements at the International Monetary and Financial Committee and Development Committee Meetings	See Annexes 1 and 2
Policy advice to the Executive Director	Described in the sections "Canada at the IMF: What Happened in 2007" and "Canada at the World Bank: What Happened in 2007"
Policy discussions during the International Development Association replenishments at the World Bank	Described in the section "Canada at the World Bank: What Happened in 2007"
Contributions to Multi-Donor Trust Funds	See Annex 10

The Boards of Governors delegate the day-to-day running of the IMF and World Bank to Executive Boards, each with 24 full-time Executive Directors. The Executive Boards reside in Washington, DC, and meet several times each week. Each Executive Director typically represents a constituency, which corresponds with IMFC and DC constituencies. The constituency to which Canada belongs is the same as that described above.

The Executive Directors that represent Canada are employees of the IMF and World Bank, and are elected by the Governors of their constituents every two years, usually based on a nomination made by the Canadian Governor. Mr. Jonathan Fried has represented our constituency at the IMF since April 2006 and Mr. Samy Watson has represented our constituency at the World Bank since September 2006. The Government of Canada provides advice to the Executive Directors and their staff, which they draw upon in developing positions for discussions at the Executive Board. Executive Directors also receive advice from other country members in their constituency and apply their own judgement as officers of the institutions.

Governors are typically asked to vote on specific resolutions and other matters requiring their approval, either at the Annual Meetings of the Boards of Governors or by mail at other times throughout the year. In contrast, most decisions by the Executive Boards are adopted in a spirit of consensus and formal recorded votes are rare (though, when a vote is taken, the Executive Director casts the votes of the entire constituency).

The voting power of members is mainly a function of their relative economic strength. A small share of a member's voting power is also determined by basic votes, which are distributed equally among all members. Canada's current voting share at the IMF and World Bank is 2.89 per cent and 2.78 per cent, respectively.

Within the Government of Canada, the Department of Finance coordinates Canada's policy advice on IMF and World Bank issues, consulting closely with other government departments and agencies, particularly the Bank of Canada, the Canadian International Development Agency (CIDA) and the Department of Foreign Affairs and International Trade. Indeed, two of these departments and agencies play a critical role: the Governor of the Bank of Canada, Mark Carney, is Canada's Alternate Governor at the IMF, and CIDA President Robert Greenhill is Canada's Alternate Governor at the World Bank.

It is important to note that while Canada has a number of avenues through which it can influence IMF and World Bank policies, we are one of 185 members. Canada is also part of a constituency and, as a result, while it can provide advice to the Executive Directors, they will also take into account the views of all of the members of their constituencies in developing positions on matters before the Board.

Outreach in 2007

In October 2007, the Minister of Finance met with civil society representatives to discuss their views on the respective reform agendas of the Bretton Woods Institutions. The Minister also sought input from civil society participants on how to improve efforts to increase focus, accountability and effectiveness in Canada's international assistance program. Attendees reflected a broad range of civil society representation, including non-governmental organizations, think tanks and academics. The IDA15 replenishment discussions also provided an opportunity for consultation. Participants met with a panel of African opinion leaders during their meeting in Maputo, Mozambique, in June 2007 and Department of Finance officials met with a number of civil society organizations before the replenishment meeting in October 2007.

Canada's Executive Directors at the IMF and World Bank also met with a variety of stakeholders, including governmental and civil society organizations and those pursuing business opportunities at the respective institutions.

In 2007, the IMF Executive Director and his staff met with many Canadian, Irish and Caribbean officials and civil society organizations, often alongside their counterparts from the Executive Director's Office at the World Bank. These meetings included representatives from the New Rule Committee, Canadian Manufacturers and Exporters, Caribbean Policy Research Institute, Canadian Association of Petroleum Producers, Oxfam International, Trócaire, the Halifax Initiative, Results-Résultats Canada, and Transparency International. Staff from the IMF Executive Director's Office also met with delegations from the Queen's University School of Policy Studies, Canadian Forces College, Université de Sherbrooke, and École Secondaire Serge Bouchard (Baie Comeau).

The World Bank Executive Director's Office met with representatives from the United Kingdom Department for International Development and the Commonwealth Secretariat. The Office also met with representatives from Canadian and international civil society, including the Debt and Development Coalition of Ireland, Engineers Without Borders, Results-Résultats Canada, Oxfam International, the Pygmies Indigenous People Association Network and Dignité Pygmée, Océan, ActionAid International, the Halifax Initiative, the Social Justice Committee of Montreal, the Bank Information Center, Global Witness, the World Conservation Union, the World Wildlife Fund, the World Resources Institute, Trócaire, Environmental Defense, the Global Organization of Parliamentarians Against Corruption, Inclusion International and DATA, to discuss a variety of development policy issues. The Office also met with students from the Canadian Forces College, Université Laval and École Secondaire Serge Bouchard (Baie Comeau).

An Introduction to the International Monetary Fund

The IMF works to safeguard the stability of the international monetary system while promoting sustainable economic growth and raising global living standards.

The primary responsibilities of the IMF are to:

- Promote international monetary cooperation.
- Facilitate the expansion and balanced growth of international trade.
- Promote exchange rate stability.
- Assist in maintaining a multilateral system of payments.
- Provide resources to members experiencing balance of payments difficulties.

Balance of Payments

The balance of payments is a summary of the economic transactions—including transactions in goods, services, income, transfers and financial assets and liabilities—between the residents of a country and non-residents over a specific period of time, usually a year.

Membership and Governance Structure

Headquartered in Washington, DC, the IMF is governed by and accountable to the governments of its 185 member countries. Each of the 185 member countries appoints one Governor and one Alternate Governor, usually the Minister of Finance and/or the Governor of the central bank, to the Board of Governors.

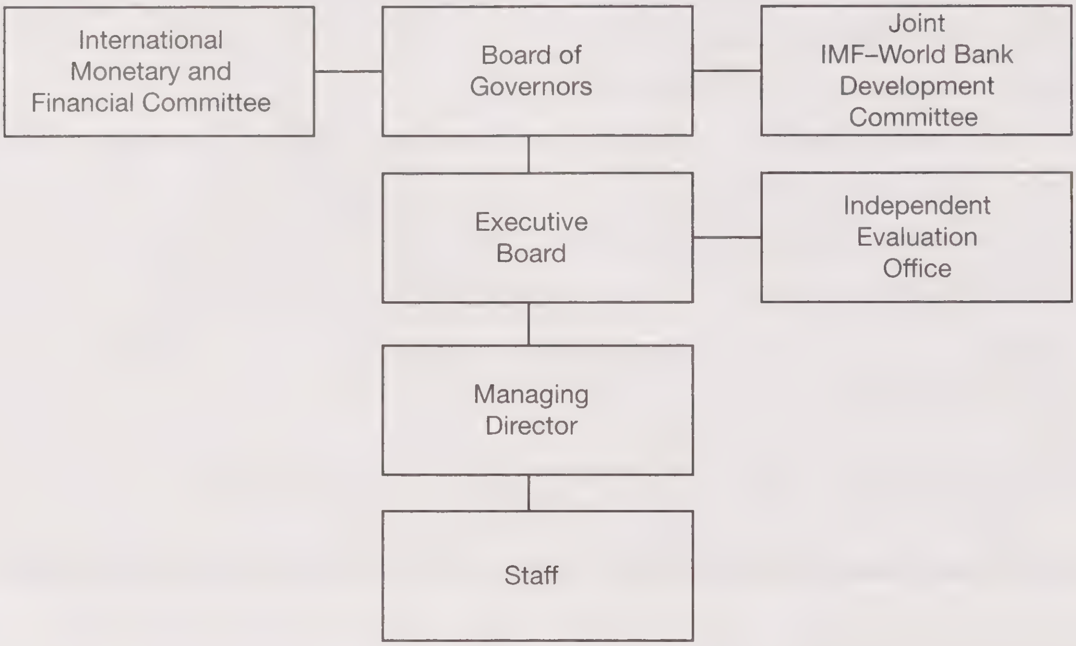
The relationship between the IMF Board of Governors, the International Monetary and Financial Committee, the joint IMF-World Bank Development Committee and the IMF Executive Board is described in the section "Canada and the Bretton Woods Institutions: Mandates and Operations" and is illustrated in Figure 1.

The Managing Director is nominated and appointed by the Executive Board for a renewable five-year term. The Managing Director serves as chair of the Executive Board and chief of the operating staff of the IMF. The present Managing Director, Mr. Dominique Strauss-Kahn, took office on November 1, 2007.

IMF staff members are appointed by the Managing Director and are solely responsible to the IMF. As of April 30, 2007, the IMF employed 2,678 staff (from 142 member countries). Efforts are made to hire qualified nationals from the largest possible number of members.

In addition, the Independent Evaluation Office (IEO) conducts independent evaluations of IMF policies and activities. The IEO is fully independent of IMF management and operates at arm's length from the Executive Board. The Director of the IEO is selected by the Executive Board for a renewable four-year term, and IEO staff is recruited from both inside and outside the IMF.

Figure 1
IMF Organizational Chart



What the IMF Does

IMF activities focus on three primary areas, all aimed at promoting a prosperous global economy by contributing to international monetary stability:

- **Surveillance:** Promoting financial and macroeconomic stability and growth through surveillance activities and policy advice that can help members prevent or resolve financial crises, sustain strong economic growth and alleviate poverty.
- **Program support:** Providing temporary financing and policy support to member countries to help them address balance of payments and/or fundamental macroeconomic problems.
- **Capacity building:** Providing technical assistance and training to help countries build the expertise and institutions they need to implement sound economic policies.

A Brief History of the IMF

1945—Canada and 28 other governments sign the IMF Articles of Agreement.

1947—IMF begins operations; first loan drawn by France.

1971—United States informs IMF that it will no longer freely buy and sell gold to settle international transactions; the established US dollar-gold fixed exchange rate system (Bretton Woods System) collapses.

1974—IMF adopts "Guidelines for the Management of Floating Exchange Rates."

1976—IMF establishes Trust Fund to provide balance of payments assistance to developing country members with profits from the sale of gold.

1977—To adapt to the new world of largely floating exchange rates, IMF Executive Board adopts the "1977 Decision" to guide IMF surveillance of member economies and exchange rate policies.

1986—IMF establishes Structural Adjustment Facility, later replaced by the Enhanced Structural Adjustment Facility (1987) and the Poverty Reduction and Growth Facility (1999), to provide balance of payments assistance on concessional terms to low-income developing countries.

1993—Systematic Transformation Facility established to assist countries of the former U.S.S.R. that face balance of payments difficulties arising from the transformation from a planned to a market economy.

1996—IMF endorses joint debt relief initiative for heavily indebted poor countries (HIPC Initiative).

2003—IMF approves joint IMF-World Bank project to monitor the policies and actions needed for the achievement of the Millennium Development Goals by 2015.

2007—IMF Executive Board adopts a new Decision (to replace the 1977 Decision) that will serve as a modern guide for strengthened bilateral surveillance of member economies and exchange rate policies.

Surveillance—Oversight of the Global Economy

The IMF identifies risks to global economic and financial stability through the surveillance of national, regional and global economic developments. Article IV of the IMF Articles of Agreement requires the Fund to undertake regular consultations with each member country on economic conditions and policies. Through its regular Article IV consultations with each member, the IMF identifies policy strengths and weaknesses and provides advice on necessary corrective measures. Under Article IV, each member country agrees to seek to pursue policies conducive to the stability of the international monetary system, and global growth and prosperity. The Article IV consultations consist of regular (usually annual) staff visits with government and central bank officials. Additionally, IMF staff generally meets with legislators and representatives from the financial sector, industry, trade unions and academia to broaden its exposure to ongoing policy debates and promote better understanding of IMF views with stakeholders. Following these consultations, staff prepares a report, which is considered by the IMF's Executive Board. In almost all cases, the staff report is published, along with a summary of Executive Directors' views as expressed in the Board discussion.

Summary of Article IV Obligations

Article IV of the IMF Articles of Agreement sets the "rules of the game" that each member country has voluntarily committed to abide by to ensure the smooth functioning of the international monetary system. Each member country is obligated to:

- Pursue economic and financial policies that promote orderly economic growth with reasonable price stability.
- Promote a stable monetary system by fostering orderly underlying economic and financial conditions.
- Avoid manipulating exchange rates or the international monetary system to prevent effective balance of payments adjustment or gain an unfair competitive advantage over other members.
- Facilitate the information necessary for the Fund to exercise firm surveillance over the exchange rate policies of members.

In return, the IMF is bound to adopt specific principles for the guidance of all members with respect to exchange rate policies consistent with the above, but that respect the domestic social and political policies and circumstances of members.

Recognizing the growing importance of regional linkages, the IMF has placed an increased emphasis on regional surveillance and possible spillovers from national economic policies. For example, the IMF holds discussions with representatives of currency unions, such as the Eastern Caribbean Central Bank, and produces semi-annual regional economic outlooks that discuss recent economic developments and prospects for countries in various regions.

In addition to its bilateral consultations with members under Article IV, the IMF conducts important regional and multilateral surveillance of developments in the overall global economy and financial and monetary system. The main products of IMF multilateral surveillance are the semi-annual *World Economic Outlook* (WEO) and the *Global Financial Stability Report* (GFSR). These reports foster discussion at the Executive Board and with capitals, and are subsequently published.[4] The Executive Board also holds regular informal discussions on world economic and financial market developments.

Program Support—Lending and Policy Advice

The IMF provides program support to its members through a variety of financial and policy instruments to help countries with balance of payments problems. Each mechanism is tailored to a member country's particular circumstances.

The IMF works much like a credit union. Although the IMF has only limited resources of its own, it has access to a large pool of liquid resources provided by its members, comprising convertible national currencies, Special Drawing Rights (SDRs), and other widely used international currencies. It makes these resources available to help members finance temporary balance of payments problems.

4 For the October 2007 WEO see: www.imf.org/external/pubs/ft/weo/2007/02/index.htm and for the October 2007 GFSR see: www.imf.org/External/Pubs/FT/GFSR/2007/02/index.htm.

When requested to do so, members provide resources to the IMF in amounts determined by quotas reflecting each country's relative economic weight in the global economy. A country's quota in turn helps determine the amount of IMF resources that it may access should it experience economic difficulties. At the end of September 2007, the total quota for the Fund's 185 members stood at SDR 217.3 billion (about US$338.3 billion).[5] Canada's contribution to this total is presently SDR 6.3 billion (about US$9.8 billion).[6] Canada's quota represents the maximum amount that it would be asked to lend to the IMF, from its international reserves, to assist other members experiencing financial difficulties.

Special Drawing Right (SDR)

An SDR is the international reserve asset created by the IMF to supplement the existing official reserves of member countries. The SDR serves as the unit of account of the IMF and its value is based on a basket of key international currencies.

A member country may seek an IMF financial program in response to a serious balance of payments or fiscal problem. In these cases, the IMF provides financing to allow the country to purchase needed imports or bolster its foreign exchange reserves. The member country obtains access to the general resources of the IMF by purchasing (drawing) other members' currencies with an equivalent amount of its own currency. A member repays the IMF by repurchasing its own currency with other members' currencies over a specified period of time, with interest. In this way, a member country borrows from other members, with the IMF as an intermediary.

Members providing the resources lent to a country facing balance of payments difficulties receive a competitive rate of interest on the resources they have provided. The interest rate approximates the return members would have received on alternative safe and liquid investments. As members receive interest, and do not provide grants to finance the Fund's general operations, membership in the IMF does not entail a direct budgetary cost.

Members requesting financial assistance reach an agreement with the IMF staff on a set of economic measures and reforms aimed at removing the underlying source of the country's balance of payments difficulty. The details of this integrated economic program (often referred to as conditionality) and the amount and duration of financing are then approved by the Executive Board. Typically, IMF financial assistance is provided in stages, or tranches, with the release of each tranche accompanied by verification that the country is continuing to follow the agreed economic program, and is meeting agreed policy conditions.

Depending on the prospective size and duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts one to two years, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility. Members affected by a natural disaster or emerging from a conflict can also access IMF facilities on an expedited basis through an emergency assistance program.

5 www.imf.org/external/np/exr/facts/quotas.htm.

6 www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=130&date1key=2008-02-05.

Over the past decade, the IMF has developed new instruments to strengthen its support to low-income member countries. Below market rate (concessional) financing to low-income developing countries is made available through the Poverty Reduction and Growth Facility (PRGF) in the form of low-interest loans with extended repayment periods. The Exogenous Shocks Facility (ESF), established in 2006, provides timely concessional support to low-income countries that are facing a balance of payments problem resulting from exogenous shocks, such as a spike in energy prices or a significant deterioration in terms of trade. The interest rate on PRGF and ESF loans is 0.5 per cent, and loans are repaid over a period of 10 years, with 5½ years' grace.

A Policy Support Instrument (PSI) is available to members that do not need or want IMF financial assistance but voluntarily request IMF endorsement and continued monitoring of their policies. A PSI signals IMF support for a member country's policies, helping to inform the decisions of private and public creditors, official donors and the general public. Canada was a strong advocate of the development of this instrument, which was introduced in late 2005. As of 2007, Cape Verde, Mozambique, Nigeria, Uganda and Tanzania have benefited from PSI arrangements.

Table 2

IMF Lending Facilities

Credit Facility (Year Established)	Purpose	Conditions
Credit tranches and Extended Fund Facility		
Stand-By Arrangements (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character.	Adopt policies that provide confidence that the members' balance of payments difficulties will be resolved within a reasonable period.
Extended Fund Facility (1974)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character.	Adopt a 3-year program with a structural agenda and an annual detailed statement of policies for the next 12 months.
Special facilities		
Supplemental Reserve Facility (1997)	Short-term assistance for balance of payments difficulties related to crises of market confidence.	Available only in the context of Stand-By or Extended Arrangements with an associated program and with strengthened policies to address loss of market confidence. Although amounts provided can be larger than those under a regular Stand-By Arrangement, interest is charged at a penalty rate to encourage early repayment.
Compensatory Financing Facility (1963)	Medium-term assistance for temporary export shortfalls or cereal import excesses.	Available only when the shortfall/excess is largely beyond the control of the authorities and a member has an arrangement with upper credit tranche conditionality, or when its balance of payments position excluding the shortfall/excess is satisfactory.

Table 2 *(cont'd)*
IMF Lending Facilities

Credit Facility (Year Established)	Purpose	Conditions
Special facilities *(cont'd)*		
Emergency assistance—natural disasters (1962) and Post-conflict (1995)	Assistance for balance of payments difficulties related to natural disasters or the aftermath of civil unrest, political turmoil, or international armed conflict.	Minimal conditions are applied, consisting of reasonable efforts to overcome balance of payments difficulties with a focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or PRGF.
Facilities for low-income members		
Poverty Reduction and Growth Facility (1999)	Longer-term assistance for deep-seated balance of payments difficulties of a structural nature; aimed at sustained poverty-reducing growth.	Adopt 3-year PRGF arrangements based on a Poverty Reduction Strategy Paper prepared by the country in a participatory process and integrating macroeconomic, structural and poverty reduction policies.
Exogenous Shocks Facility (2006)	Short-term assistance to address a temporary balance of payments need arising from an exogenous shock (e.g. a spike in energy prices).	Adopt a 1-2 year program involving macroeconomic adjustments allowing the country to adjust to the shock and structural reform is considered important for adjustment to the shock, or mitigating the impact of future shocks.

Source: IMF, *Annual Report 2007*, p. 34.

Capacity Building

Technical assistance is another core function of the IMF. The IMF offers technical assistance in its areas of expertise such as macroeconomic policy, tax and revenue administration, public expenditure management, monetary policy, exchange systems, financial sector reform, and statistical capacity building. Most technical assistance is provided free of charge to member country authorities.

Table 3
Regional Technical Assistance Centers (RTACs)

Centre Name (Location) Year Opened	Beneficiary Countries and Territories
Pacific RTAC (Suva, Fiji) 1993	Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu.
Caribbean RTAC (Bridgetown, Barbados) 2001	Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Cayman Islands, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos, and Virgin Islands.
East AFRITAC (Dar es Salaam) 2002	Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, and Uganda.
West AFRITAC (Bamako, Mali) 2003	Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo.
Middle East RTAC (Beirut, Lebanon) 2004	Islamic Republic of Afghanistan, Egypt, Iraq, Jordan, Lebanon, Libya, Sudan, Syrian Arab Republic, West Bank and Gaza, and Republic of Yemen.
Central AFRITAC (Libreville, Gabon) 2007	Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Equatorial Guinea, and Gabon.

In collaboration with member countries, the IMF delivers technical assistance through missions from headquarters, short-term expert assignments, long-term resident advisors or regional centers. In addition to the IMF Institute, based in Washington DC, seven regional training institutes and six RTACs deliver more accessible and regionally tailored programming to member countries across the globe.

Canada is a major contributor to the IMF training programs, including the provision of support for the Africa Technical Assistance Centers, the Caribbean Regional Technical Assistance Center, the Financial Sector Reform and Strengthening Initiative and the Iraq Technical Assistance Program.

Canada and the IMF

As one of 185 member countries, Canada plays an important collaborative role with our international partners to ensure that the IMF has the tools it needs to fulfil its mandate of promoting international monetary and financial stability. A healthy global economy helps create more jobs for Canadians, promotes stable prices for goods and services, and improves our standard of living. Canada's participation at the IMF encourages international cooperation, sustainable economic growth and better living standards for citizens across the globe.

As a result of the relatively large size of the Canadian economy, and its openness to international trade, Canada has a significant voting share at the IMF (see Table 4). As a result, a Canadian has historically held a seat on the Executive Board, which is composed of 5 appointed member countries and 19 elected member countries and constituencies. Canada's seat on the Executive Board represents a constituency that includes Ireland and member countries from the Commonwealth Caribbean. Although Canada's voting share at the IMF is 2.89 per cent, the Executive Director casts the votes of all members of the constituency, for a total of 3.64 per cent. In the event of a vote, the Executive Directors of multi-country constituencies must cast all of the votes of their members as a block.

Table 4
Voting Shares of the 12 Largest Members of the IMF

Country	% of Total Voting Shares
United States	16.79
Japan	6.02
Germany	5.88
United Kingdom	4.86
France	4.86
China	3.66
Italy	3.20
Saudi Arabia	3.17
Canada	**2.89**
Russia	2.70
Belgium	2.09
India	1.89

Office of the IMF Executive Director for the Canadian, Irish and Caribbean Constituency

Executive Director	Jonathan Fried (Canada)
Alternate Executive Director	Peter Charleton (Ireland)
Senior Advisor	Paul Jenkins (Canada)
Senior Advisor	Murna Morgan (Jamaica)
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Canada at the IMF: What Happened in 2007

This section describes how Canada delivered on its priorities for 2007, as set out in the 2006 *Report on Operations Under the Bretton Woods and Related Agreements Act*. It also provides an overview of other major developments at the IMF in 2007. For each major issue, it describes Canada's involvement and summarizes our views, as conveyed through advice to the Executive Director's Office as well as statements at IMFC Meetings. The section ends with Canada's voting record at the IMF for 2007.

Canada's Priorities in 2007

In the "Looking Ahead" section of the 2006 report, we described Canada's institutional reform priorities at the IMF for 2007 as:

- Quotas, voice and representation.
- Strengthening surveillance activities.
- Innovative IMF lending facilities.
- Improved financing of the IMF.

The following section reports on Canadian achievements and challenges in these and other key areas of IMF activity.

IMF Reform

Canada played an influential role at the IMF in a number of priority areas in 2007. While the IMF continued its global economic oversight role in an increasingly challenging environment, many discussions at the Executive Board, international Finance Ministers' groupings and the IMFC tended to be focused on reforms to the institution. The IMF reform agenda, originally outlined in the 2006 Medium-Term Strategy (see Table 5), continues to progress. The objectives set out in the Medium-Term Strategy focus on improving IMF surveillance, crisis prevention instruments, low-income country support, capacity building, member country representation (quota and voice), and the Fund's governance and internal management practices.[7]

[7] For more information on the IMF's Medium-Term Strategy see: www.imf.org/external/np/exr/ib/2006/041806.htm and *Annual Report 2007*, p. 10.

Table 5
The IMF's Medium-Term Strategy

Issue	Objectives
New directions in surveillance	• Modernize the surveillance framework. • Develop new approaches to multilateral consultations. • Strengthen financial sector surveillance. • Sharpen and focus country surveillance.
Emerging markets and crisis prevention	• Deepen financial sector and capital market surveillance. • Reassess the adequacy of existing instruments for crisis prevention.
More effective engagement in low-income countries	• Help low-income countries achieve the Millennium Development Goals • Deepen involvement in dealing with aid flows. • Help countries that have received debt relief avoid reaccumulating unsustainable debt.
Improving capacity building	• Bolster capacity building in developing countries. • Target technical assistance and training to better address vulnerabilities identified through surveillance activities.
Quota and voice reform	• Reinforce IMF effectiveness and legitimacy through progress on quota and voice reform.
IMF governance and management reform	• Strengthen communication and transparency. • Make the IMF more cost-effective and efficient. • Put IMF finances on a sustainable footing.

Limited Progress on IMF Quota and Voice Reform

Canada believes that an IMF governance structure that is representative of the growing importance of emerging markets in the global economy is essential for the institution's longer-term credibility and legitimacy. The present structure has left certain dynamic economies, many of which are rapidly growing emerging market countries, under-represented relative to their weight in the world economy. This risks undermining the effectiveness of the IMF as an international forum. Discussions are now underway to modernize the quota formula and realign voting power in order to address this problem. Governance reform will strengthen the IMF's legitimacy and, thus, its effectiveness in influencing members with its policy advice.

It is important to note, however, that although the issue has often been cast as an advanced versus developing country debate, there are both advanced and developing countries that are over-represented or under-represented in their current voting share. The need for a realignment of voting shares is the biggest challenge facing the IMF membership.

Canada has been a leader in the quota debate, both at the IMF Executive Board and within the Group of Seven (G7) and Group of Twenty (G20) Finance Ministers' fora, and has made significant efforts to develop proposals and play a bridge-building role. We were a strong proponent of launching the exercise ahead of the 2006 Annual Meetings and have worked hard since then to build a broad-based consensus.

At the 2006 Annual Meetings, IMF Governors agreed to support an increase in IMF quota share for four significantly under-represented countries (China, Mexico, South Korea and Turkey) as a "down payment" for future quota and voice reforms. The deadline for these reforms was set as the 2008 IMF Annual Meeting. The reforms entail developing a new formula that generates quota shares that better reflect countries' relative weights in the global economy. In addition, it was agreed that each member should receive an increase in basic votes (that are uniform in number and not based on quota size) to ensure that the voice of small and low-income members is protected going forward.

Since 2006, considerable effort has gone into designing a new quota formula and examining how it would be used to determine members' quota levels and voting power. Canada has proposed innovative ideas for a new quota formula based on a principles-based approach in which market-based gross domestic product (GDP) is the primary variable, but which also provides a role for purchasing power parity (PPP) GDP. A PPP measure of GDP benefits developing countries by more favourably measuring their economic output.

What is Purchasing Power Parity (PPP)?

A PPP measure of economic wealth adjusts exchange rates so that an identical good in two different countries has the same price when expressed in the same currency. For example, an equivalent loaf of bread that sells for C$1.00 in a Canadian bakery should cost 24.00 Russian rubles in a Russian bakery when the exchange rate between Canada and Russia is 24.00 RUB/C$.

Progress has been made in coming to a consensus on a new quota formula, including general agreement on the specific variables to include in the formula. Advanced economies have also indicated their willingness to compromise by including a PPP GDP component. As a result of quota and voice reforms, the vote share of dynamic economies, many of which are emerging markets, is expected to increase. In addition, there is general agreement that the number of basic votes awarded to each country should at least be doubled, and perhaps tripled, to ensure that the voice of low-income countries is protected.

However, a consensus has remained elusive. Many developing countries want a much larger role for PPP GDP in the equation and a significantly greater shift in voting power from advanced to developing countries than can be generated from the proposals currently under consideration.

Although our own voting weight will almost certainly decline after the exercise, Canada views this as appropriate and supports the objectives of reform. In particular, we support a simple and transparent formula, which will reward dynamic economies and realign quota shares. We also strongly support protecting the vote share of low-income countries. In order for the reforms to pass, a majority of 85 per cent of votes is required. Considerable flexibility on the part of all member countries will be required to meet the fall 2008 deadline for a new agreement.

Given its fundamental importance to the credibility and effectiveness of the IMF, Canada will continue to play a leading role in the debate on quota and voice reforms, trying to bridge the gaps between the major stakeholders to reach an equitable and durable solution.

Distilling the IMF Quota Reform Debate

The goal of quota and voice reform is to realign members' quota shares with their current weights in the global economy using a single, simple formula. This is meant to increase transparency and provide a modern, lasting system for determining IMF member quota (and thus voting) shares.

At present, quota shares are calculated using five separate formulas, developed over 50 years ago. In varying proportions, the formulas measure market-based GDP, foreign reserves, current cross-border payments, current cross-boarder receipts, and variability of current receipts (i.e. how stable inflows are). Under a complex procedure, the data for each member country is inputted into the formulas that they choose to utilize, and then the different formula totals are averaged to maximize the final result for the member. The results of all members are then scaled so that quota shares sum to 100 per cent. This process is neither simple nor transparent.

In Canada's view, the new formula should reward openness and economic dynamism, which will increase the influence of many emerging markets. The new formula will likely be based on a mixture of GDP, reserves, economic openness, and variability of capital and goods flows.

The Canadian Proposal

Many quota formula proposals currently under consideration may not immediately provide an increase for some important emerging market members. To assist these dynamic economies, Canada and the G7 proposed that the new formula be paired with a filter. This was intended to guarantee a boost in the quota shares of countries that have contributed significantly to global GDP growth measured on a PPP basis. At the same time, under-represented G7 countries would limit themselves to accepting smaller quota increases than they deserve, freeing up room for boosting the quotas of other under-represented countries.

Alternatively, Canada has proposed that if PPP GDP is to form part of the quota formula, that the PPP component of the formula should sunset over time. This would facilitate an incentive-based, principled formula while providing a down payment on future growth in the economies of emerging markets.

Encouraging Progress on Strengthening IMF Surveillance

Surveillance of world economic and financial conditions is a core function of the IMF and another critical element for its credibility and effectiveness. The 2006 report identified strengthening surveillance as a key priority for progress in 2007; specifically, Canada would support reforms to IMF surveillance that promote objective and even-handed economic policy assessments, scrutinize members that pursue policies with negative spillover effects, and promote a high level of public transparency.

In 2007, Canada was a driving force for improvements to the IMF's surveillance framework, pushing discussions forward at the Executive Board, and arguing the merits of strengthened surveillance in fora such as the G7 and G20 Finance Ministers' Meetings. Recent progress on this issue represents an important success story. The IMF now has better tools and an improved governance structure to carry out candid, targeted and even-handed surveillance that is better able to identify threats to external stability.

In June, the Executive Board adopted the 2007 Decision on Bilateral Surveillance, replacing the 30-year-old 1977 Decision on Surveillance over Exchange Rate Policies. The 2007 Decision provides a modern legal underpinning and strengthened procedures for bilateral surveillance.

The Decision improves the Fund's ability to identify domestic macroeconomic and exchange rate policies that have negative spillover effects. It also reinforces the principle that surveillance should be applied to all members in an even-handed fashion. Candour in assessments and cooperative dialogue with member countries are central to the 2007 Decision.

In August, due largely to Canadian efforts, the Executive Board agreed to a triennial Statement of Surveillance Priorities (SSP) exercise. The SSP provides a mechanism by which IMF Governors can set out IMF surveillance priorities for the coming three years, and evaluate progress in implementing these priorities. The first SSP will be developed in 2008 in conjunction with the 2008 Triennial Surveillance Review, which is a regular stock-taking exercise regarding IMF surveillance operations.

Canada pushed for this innovation to ensure the IMF is more strategic when setting priorities for surveillance. In addition, we envisage a stronger role for IMF members in the priority-setting exercise to ensure that the IMF has the political backing to make clear assessments of member policies in key areas causing spillovers in the international economy. Finally, a statement of priorities promotes greater accountability by the IMF for the quality, focus and even-handedness of its surveillance.

Canada is pleased with the progress made so far on IMF surveillance reforms. The challenge going forward will be the rigorous implementation of the 2007 Decision guidelines for IMF bilateral surveillance (Article IV reviews) and the development of the SSP and its use over time as a way to ensure that the right issues are the focus of future IMF surveillance reviews.

IMF Lending Reforms

Despite a recent sharp downward trend in new lending, this remains an important activity for the IMF. Canada believes that IMF lending facilities remain an important element of the international financial architecture and the debate on crisis prevention and resolution. While not an urgent area for reform, Canada has been engaged in policy debates concerning the IMF's lending facilities and activities.

The 2006 report indicated that Canada would continue to support reforms to Fund lending facilities that promote effective crisis prevention and resolution—contributing to a more stable world economy. In Canada's view, it is also important that the Fund provide lending facilities that effectively respond to the differing financing needs and abilities of its members, but which safeguard member's resources in the IMF.

IMF efforts under the Medium-Term Strategy in 2006 and early 2007 included preliminary design work on a new high-access precautionary lending instrument for emerging market economies that continue to have access to international capital markets. This new facility was considered to be an important part of the package of reforms. However, in recent years, the potential clientele for such an instrument has experienced strong economic growth and foreign reserves accumulation (thus buttressing their ability to withstand a possible loss of market confidence or external shocks). Therefore, there is little demand for a new IMF precautionary facility at this time.

One such instrument, the Contingent Credit Line (CCL), was introduced on a trial basis in 1999, but it went unused owing to design challenges that were not fully resolved and subsequently expired. In this respect, we noted in the 2006 report the challenges inherent in designing a high-access precautionary facility that provides reliable and quick access to Fund resources, while ensuring that those resources have adequate safeguards for repayment. In addition, we noted the importance of ensuring correct market signals when members utilize or cancel these lending instruments.

Nonetheless, in Canada's view, recent IMF proposals for a Reserve Augmentation Line—a successor facility to the CCL—could, if properly designed, fill a potential gap in the range of instruments available to IMF members that do not have full access to private capital markets.

The policy debate on Fund lending instruments has, at least temporarily, been overtaken by an increased focus on quota and voice reforms and a stronger surveillance framework. However, we expect IMF discussions on improving lending instruments to gain momentum in the medium term. IMF lending reform may become a more prominent priority for Canada in future reports.

Renewed Efforts to Fix the IMF's Finances

In FY2007, the IMF incurred a deficit in its administrative budget—the first deficit in over two decades. This deficit is projected to significantly increase in coming years unless corrective action is taken. The deficit is an indirect result of welcome global economic trends, including more stable growth in developing countries and enhanced access to international financial markets for emerging economies. Those trends have contributed to a substantial decline in developing countries' demand for IMF lending and therefore a decline in interest income for the IMF, which is at present the IMF's main source of revenue. There is now broad agreement among IMF member countries that the Fund's finances should be put on a sustainable basis through a two-pronged approach: cutting expenses and developing new income sources.

Canada has long pushed for an IMF that is focused on its core mission and on improving the efficiency of its operations. We have a strong record of calling for IMF budget restraint at the Executive Board and in our Governor's statements to the IMFC. Consistent with this approach, Canada has been at the forefront of recent efforts to align the Fund's expenditure framework with its core mandate and comparative advantages.

Significant progress has been made in recent discussions of IMF expenditure reduction. Managing Director Dominique Strauss-Kahn has recognized that the expenditure review exercise represents an opportunity for the IMF to refocus its activities on its comparative advantages, retaining or even strengthening core functions, including surveillance. An eventual package of reforms could include efficiency-enhancing measures, reductions in some activities and reallocations among other activities. The package will also include a substantial reduction in Fund staff and overall spending that is unprecedented in the institution's history.

The Executive Director representing Canada, Ireland and the Caribbean is a member of the IMF Executive Board's Committee of the Budget. Accordingly, Canada has had a concrete and influential role in budget-cutting discussions since late 2007 and will continue this role in 2008. The Minister of Finance has also recently encouraged the Executive Director representing Canada to continue to show leadership in Executive Board efforts to reduce their own budgets on a comparative magnitude with Fund-wide cuts.

There has also been notable progress on efforts to reform the IMF's income model. In January 2007, at the request of the IMF Managing Director, a committee of eminent persons chaired by Sir Andrew Crockett reported on its deliberations over potential new income sources for the IMF. The report recommended the diversification of income sources to improve the stability and predictability of IMF income. The report also suggested ways for the IMF to increase the rate of return on its invested assets and expand the IMF's pool of invested assets, including through the sale of a limited portion of the IMF's gold holdings, which are the third largest in the world.

The 2006 *Report on Operations Under the Bretton Woods and Related Agreements Act* indicated that Canada would assess the recommendations of the Crockett report in 2007. The main income-generating proposals and Canada's assessment of those recommendations are contained in the text box below.

Beyond demonstrating leadership in budget-cutting efforts, the Managing Director has challenged the membership to reach agreement in 2008 on a number of income-enhancing measures recommended in the Crockett report. Canada is convinced of the need for broad agreement on a package of significant income reforms. While we are encouraged by the progress at the IMF on both the income and expenditure sides, further concerted efforts will be required to resolve the budget deficit situation in the ambitious time frame proposed by the Managing Director.

Key Crockett Report Recommendations and Canadian Views

- **Sell a strictly limited amount of IMF gold** (403 tonnes) and place the capital gains portion of the proceeds in an endowment. This would convert a non-income-earning asset (gold) into income-earning assets (bonds, etc).

Canada supports this recommendation provided the gold sale is managed in such a way that it does not disrupt world gold markets.

- **Liberalize the IMF's relatively stringent investment policy**, aligning it with the investment policies of other international financial institutions with AAA credit ratings. This could enable the IMF to earn a greater rate of return on its invested assets in the long run. At present, the IMF's pool of income-earning assets consists of approximately US$9 billion in accumulated reserves.

Canada supports this recommendation, provided the new policy is prudent and does not create any potential conflicts of interest between the IMF's role in assessing economic developments and providing advice to members on the one hand and any expanded role as an investor in market securities on the other hand.

- **Invest a portion of member countries' quota subscriptions**. Traditionally, quota resources are used by the IMF only for program lending to members. Under the proposal, however, member countries would provide the IMF the right to invest some of their quota resources. The IMF would then retain the difference between the rate of return on the investment and the rate of remuneration paid to creditor countries.

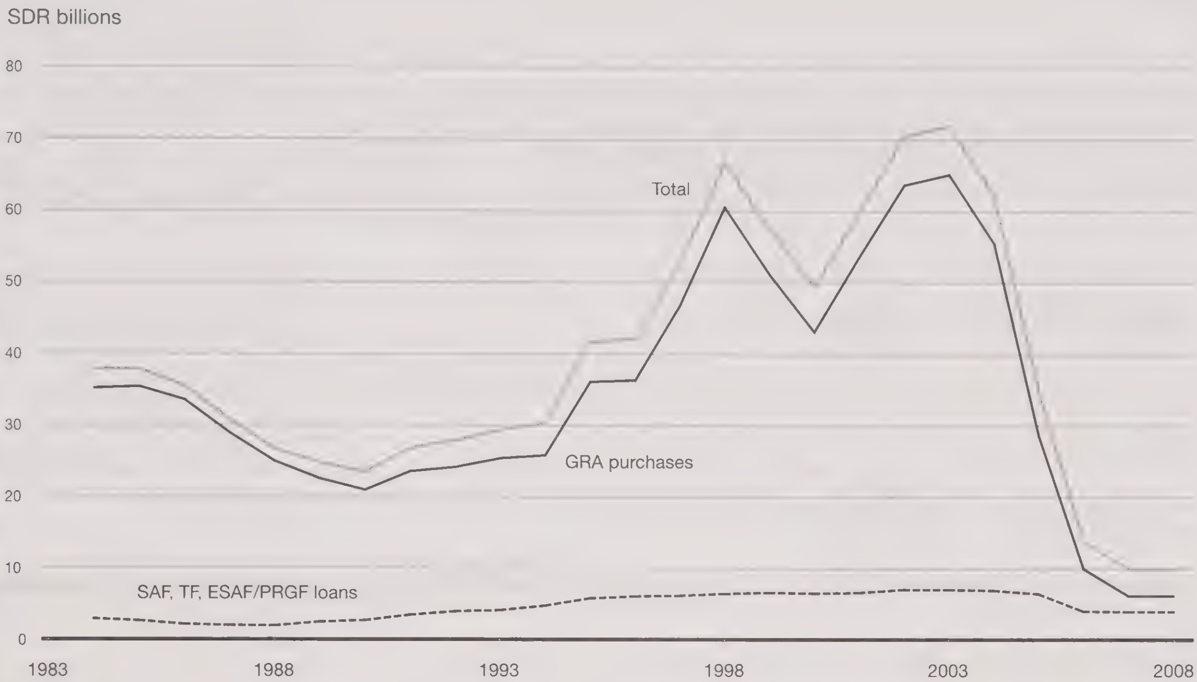
Canada is open to considering this recommendation should it be demonstrated that it is required to fill the budget gap following implementation of the other income options and a significant reduction in budget expenditures.

Other Developments in 2007

Update on Lending Activity

A relatively benign global economic and financial environment has been the main driver behind a reduction in demand for borrowing from the IMF in recent years. Fewer countries require IMF assistance in responding to balance of payments or other economic difficulties. In recent years, many countries that had borrowed during previous periods of difficulty have been able to repay the IMF ahead of schedule, as is reflected in Chart 1.

Chart 1
IMF Credit Outstanding for All Members



Notes: GRA = General Resources Account; SAF = Structural Adjustment Facility; TF = Transfer Fund; ESAF = Enhanced Structural Adjustment Facility; PRGF = Poverty Reduction and Growth Facility.
Source: www.imf.org/external/fin.htm.

Reasons for falling IMF lending activity in FY2007 include:

- During FY2007, nine members—Bulgaria, the Central African Republic, Ecuador, Haiti, Indonesia, Malawi, the Philippines, Serbia and Uruguay—repaid their outstanding obligations to the IMF ahead of schedule.
- IMF disbursements have also been relatively low in recent years, totalling SDR 2.3 billion in FY2007, with the majority being drawn by Turkey.
- New IMF general lending commitments fell sharply, from SDR 8.3 billion in FY2006 to SDR 237 million in FY2007.

The total resources that the IMF has available to assist its members are determined by the size of members' quotas. IMF liquidity, the amount of these resources that are undrawn and thus available to finance future lending to members, rises or falls depending on how much of the Fund's total resources are already lent to members. IMF credit to members is very low at present, reflecting the generally favourable economic situation prevailing in most emerging markets (the IMF's traditional borrowers). For these reasons, IMF liquidity rose to a record SDR 127.3 billion as of October 2007.

In terms of concessional lending, the Executive Board approved 10 new PRGF arrangements during FY2007 totalling SDR 401 million. New PRGF arrangements were approved for Afghanistan, Burkina Faso, the Central African Republic, Gambia, Haiti, Madagascar, Mauritania, Moldova, Rwanda and Sierra Leone.

Debt relief is linked to the effectiveness of IMF concessional lending. Total disbursements of Heavily Indebted Poor Countries (HIPC) Initiative assistance by the IMF amounted to SDR 1.7 billion at the end of FY2007, and the IMF delivered Multilateral Debt Relief Initiative debt relief totalling SDR 2.7 billion to 24 qualifying countries. Haiti reached its decision point in FY2007, Malawi, Sierra Leone and São Tomé and Príncipe reached their completion points, and Afghanistan was added to the list of countries eligible for assistance under the HIPC Initiative.

HIPC Decision and Completion Points

A country is said to have reached its HIPC decision point after establishing a track record of good performance and developing a Poverty Reduction Strategy Paper (PRSP) or an interim PRSP, at which time the IMF and World Bank formally decide on the country's eligibility and the international community commits itself to reducing the country's debt to a sustainable level. A country reaches its completion point once it has met the objectives set at the decision point; it then receives the balance of debt relief committed.

A New Managing Director and a Revised Selection Process

In the past, the selection process for the position of IMF Managing Director was marked by a distinct lack of transparency and perceived fairness. Canada has long argued for an open and transparent process whereby any country member could nominate a candidate for the position, and those nominees would have equal opportunity to represent their candidacy. In this arrangement, a majority vote or consensus decision by the Executive Boards would decide the successful candidate, with their decision based entirely on merit. Equally importantly, the process would be guided by publicly available rules and procedures.

The unexpected departure of the former Managing Director, Rodrigo de Rato, in 2007 presented Canada with an opportunity to push for reform of the selection process. The process that was ultimately followed by the IMF Executive Board fulfilled the objectives outlined above. The Executive Board publicly issued broad guidelines and a timetable for the selection process and established a clear nomination period. Two nominees came forward for the Managing Director post. Both nominees had direct and equal contact with the Executive Board members, delivering statements and responding to questions. Canada embraced the new process. The Minister of Finance interviewed both candidates by phone and assessed their merit. He also conveyed his recommendation to the Executive Director representing Canada, Ireland and the Caribbean.

In November 2007, Canada welcomed the appointment of Mr. Dominique Strauss-Kahn, former French Minister of the Economy, Finance and Industry and Professor of Economics at the Institut d'Études Politiques de Paris, as the 10th Managing Director of the IMF.

IEO Evaluations

The Independent Evaluation Office (IEO) is an important part of the IMF. It was set up following calls from Canada and like-minded members for a body that could conduct in-depth, independent and candid evaluations of IMF policies and activities. It is fully independent of management and operates at arm's length from the Executive Board.

The IEO completed three evaluation reports in 2007 addressing topics vital to the work of the organization: aid to Sub-Saharan Africa, exchange rate policy advice and structural conditionality. While these evaluations are retrospective, they provide insightful analysis and present well-considered recommendations for improving the work of the IMF.

In March 2007, the IEO released *The IMF and Aid to Sub-Saharan Africa*.[8] The report examines the role of the IMF in the determination and use of aid to low-income countries in Sub-Saharan Africa from 1999 to 2005. The key findings of the evaluation include:

- PRGF-supported macroeconomic policies generally accommodated the effective use of incremental aid.
- PRGFs failed to set ambitious aid targets and identify additional aid opportunities.
- Fiscal governance elements were treated more systematically in IMF-supported programs than other objectives, such as social impact analysis.
- Better IMF communications efforts are needed to reduce misinformation and missed opportunities.

The report recommends that:

- The Executive Board reaffirm and/or clarify IMF policies to improve the coherence of IMF policies and actions.
- IMF management establish transparent mechanisms for monitoring and evaluating the implementation of clarified policy guidance.
- IMF management clarify expectations and resource availability for resident representatives' and missions chiefs' interactions with local donor groups and civil society.

Canada supports the IEO's recommendation that greater clarity and consistency are needed around IMF policies. In particular, better communication and transparency are needed between the IMF, donors and civil society to foster a clear understanding of why authorities may not be spending all available aid. IMF staff should work to better inform donors and beneficiary governments of the issues surrounding aid absorption capacity and aid opportunities.

In May 2007, the IEO released *IMF Exchange Rate Policy Advice*.[9] The report finds that the IMF has experienced difficulties in fulfilling its responsibilities for exchange rate surveillance, including:

- A lack of clear operational guidance for IMF staff.
- A culture of excessive deference to the views of authorities in the country undergoing surveillance.

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8 See: www.ieo-imf.org/eval/complete/eval_03122007.html.

9 See: www.ieo-imf.org/eval/complete/eval_05172007.html.

- Insufficient attention to the implications of country policies for the stability of the international monetary system.
- Shortcomings in engagement and trust with developing countries.

The report's recommendations include:

- The establishment of more concrete guidelines for IMF staff to operationalize a clearer mandate regarding exchange rate policies.
- A call for improvements to the framework of IMF exchange rate analysis.
- An increase in IMF staff engagement with country authorities to encourage more candid surveillance.

Canada supports the report's findings regarding the need for reform of IMF surveillance as it applies to exchange rate regimes. In this respect, the 2007 Decision on Bilateral Surveillance and the Statement of Surveillance Priorities, currently under development, have the potential to address many of these shortcomings. Canada is continuing to work to strengthen IMF surveillance, including the full implementation of the 2007 Decision and Statement of Surveillance Priorities.

At the close of 2007, the IEO completed *An IEO Evaluation of Structural Conditionality in IMF-Supported Programs.*[10] The report examines factors influencing the effectiveness of IMF structural conditionality in bringing about structural reform, and assesses the impact of the streamlining initiatives launched in 2000 and the 2002 Conditionality Guidelines.[11] The key findings of the evaluation include:

- The number of program conditions remains excessive (averaging 17 conditions per program year).
- Only about half of structural conditions were complied with on a timely basis.
- Strong ownership of the reform program by IMF staff and the member country is critical.
- Compliance and effectiveness of conditions are higher in core IMF competency areas, such as public expenditure management and tax issues.
- There is a lack of clarity on what conditions are critical to program success and a need for roadmaps that outline program objectives.

The report's recommendations include that:

- The Executive Board clarify expectations for the number and focus of structural conditions.
- IMF staff work with member countries to clearly identify the main goals of each program and set structural conditions that significantly contribute to these goals.
- The IMF work with the World Bank to help member countries diagnose constraints and prepare strategies for reform.
- Information regarding monitoring, evaluation and conditionality be more clearly articulated by IMF management to staff, member countries and outside organizations.

[10] See: www.ieo-imf.org/eval/complete/eval_01032008.html.

[11] The streamlining initiatives aimed to reduce the volume and scope of structural conditionality, focusing on conditions that are critical to the achievement of the program goals over time.

Canada supports limiting the number and nature of structural conditions to those most critical to program success. It will work through the Executive Board to promote clearer IMF communication regarding conditionality and better Fund collaboration with the World Bank, particularly in low-income countries. The Government of Canada looks forward to the presentation of the IMF staff's implementation plan in early 2008 as a concrete measure to act on lessons learned in this exercise.

Canada's Voting Record in 2007

Since the vast majority of decisions at the IMF are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of policy proposals before they are brought to the Board (through informal discussion with staff and management) or to influence other members of the Executive Board before or during the course of Board deliberations. Below is Canada's position on the two resolutions taken by the Board of Governors in 2007. As well, the Executive Director representing Canada, Ireland and the Caribbean recorded one abstention in 2007.

Voting Record of the Canadian Governor in 2007

- In January 2007, Canada's Governor approved the Republic of Montenegro's request for membership at the International Monetary Fund.
- In August 2007, Canada's Governor supported an increase in the salaries for the Executive Directors at the IMF to reflect the increase in the cost of living in Washington, DC.

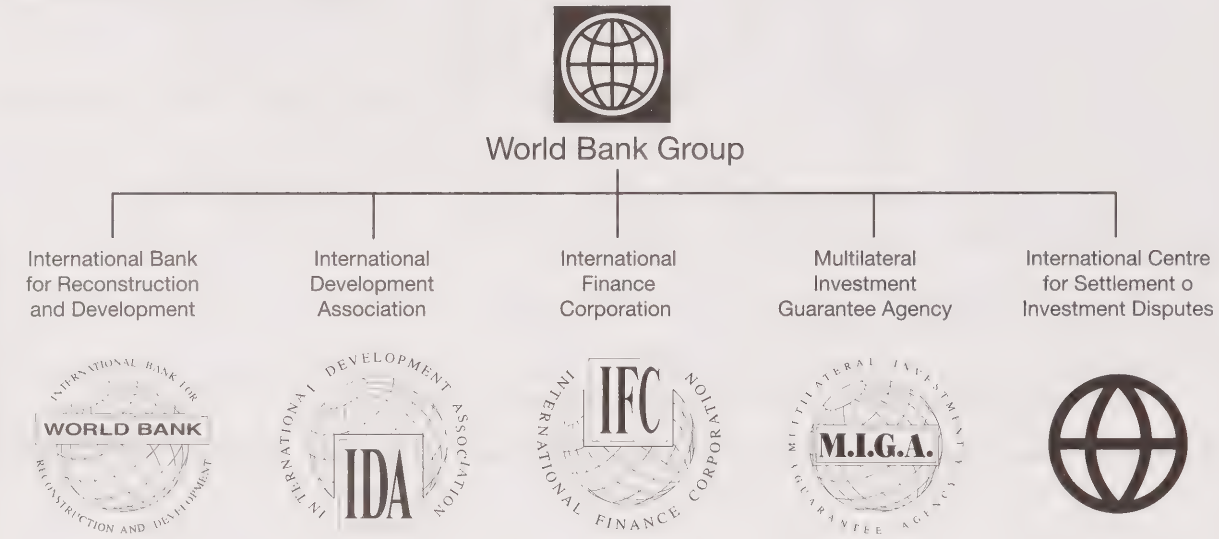
Voting Record of the Executive Directors Representing Canada in 2007
(only oppositions or abstentions listed)

- In June 2007, Canada's Executive Director at the IMF abstained on the vote to approve the completion of the third review of Nigeria's Policy Support Instrument due to slippages in macroeconomic and structural policy implementation.

An Introduction to the World Bank

The World Bank Group is made up of five complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). Each institution plays a unique but complementary role in promoting global poverty reduction.

Figure 2
Five Agencies—One Group



The overarching mission of the World Bank is to reduce global poverty, focusing on the achievement of the Millennium Development Goals (MDGs). These MDGs set concrete targets for the elimination of poverty and sustained development and provide the Bank and other donors with common targets and yardsticks for measuring results. The Bank concentrates on fostering a climate conducive for investment, job creation and sustainable growth. It also seeks to empower the less fortunate, through the provision of health services, education and other social services, to enable them to participate in development.

The Millennium Development Goals

- End extreme poverty and hunger.
- Make sure all children receive a primary education.
- Promote equal rights for women and give them power to help themselves.
- Improve the health of pregnant women and mothers.
- Reduce child death rates.
- Tackle HIV/AIDS, malaria and other diseases.
- Protect the environment and natural resources.
- Develop an international partnership for development.

Together, the IBRD and IDA are often referred to as "the World Bank." They focus on lending and contributing to development projects that help to reduce poverty. Funding from the IBRD and IDA go to sectors such as education, health, infrastructure, environment and agriculture. The IFC and MIGA support private sector investment in developing countries.

World Bank Group Agencies[12]

IBRD—International Bank for Reconstruction and Development

IBRD at a Glance

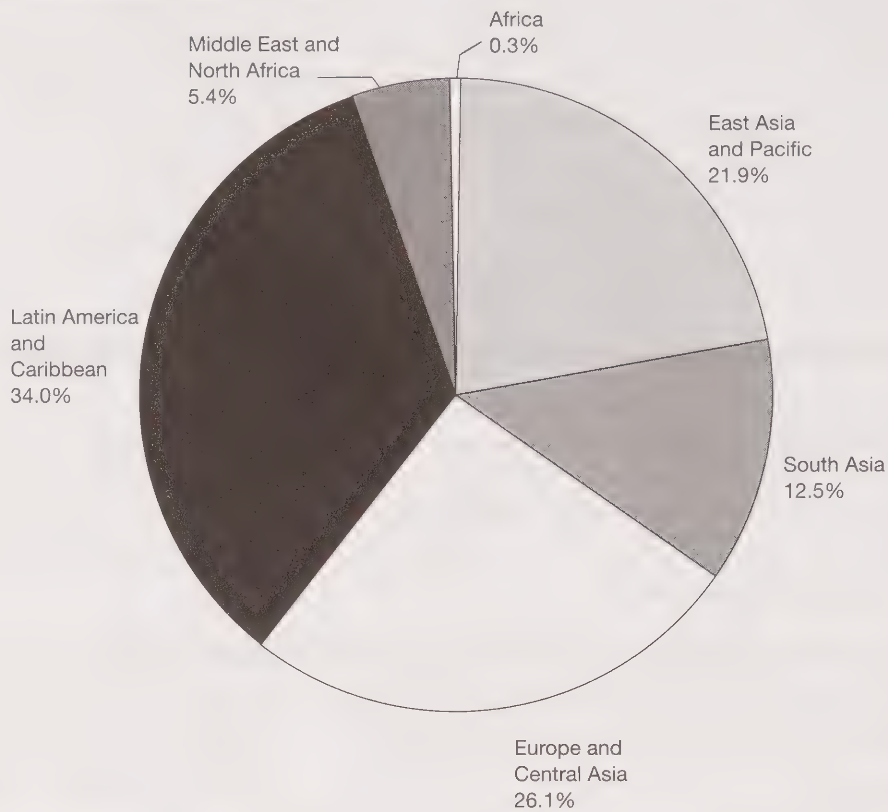
- Established: 1945
- Members: 185
- Mission: Broad poverty reduction
- Clients: Middle-income and creditworthy low-income countries
- Tools: Loans, guarantees, analytical and advisory services
- Size: US$12.8 billion in new commitments, 2007

Established in 1944, the IBRD is the original institution of the World Bank Group and its main lending agency, providing loans to middle-income and creditworthy low-income countries with per capita incomes of less than US$17 per day.

The IBRD raises most of its funds in the world's financial markets by selling AAA-rated World Bank bonds. It lends these funds to its client countries at a rate of interest that is much lower than the rate they could secure on their own. The IBRD is able to borrow at attractive rates because it is backed by capital commitments from its member countries.

[12] All figures and activities in this section are for the World Bank's 2007 fiscal year (July 1, 2006 to June 30, 2007)

Chart 2
Total IBRD Lending By Region, 2007



The IBRD does not seek to maximize profit; rather, it aims to earn enough to ensure its financial strength and to sustain its development activities. In 2007, the IBRD raised US$11 billion on world capital markets and committed US$12.8 billion to 112 projects in developing countries.

Latin America and the Caribbean receive the largest portion of IBRD funding (34 per cent in 2007), followed by Europe and Central Asia. IBRD lending for infrastructure has been on the rise in recent years, accounting for approximately 55 per cent of total lending in 2007. Lending for government and economic management, health and education also remained a focus.

IDA—International Development Association

IDA at a Glance

- Established: 1960
- Members: 166
- Mission: Broad poverty reduction
- Clients: Poorest countries
- Tools: Interest-free loans, grants, analytical and advisory services
- Size: US$11.9 billion in new commitments, 2007

In the 1950s, it became clear that the poorest developing countries could not afford to borrow needed capital on the terms offered by the IBRD. In response, IDA was set up to lend to very poor countries at zero interest. IDA lending now accounts for approximately one-third of World Bank Group financing and is focused on countries with annual per capita income of less than US$3 per day. IDA offers 35- and 40-year interest-free loans and grants and represents the largest source of development financing for these countries.

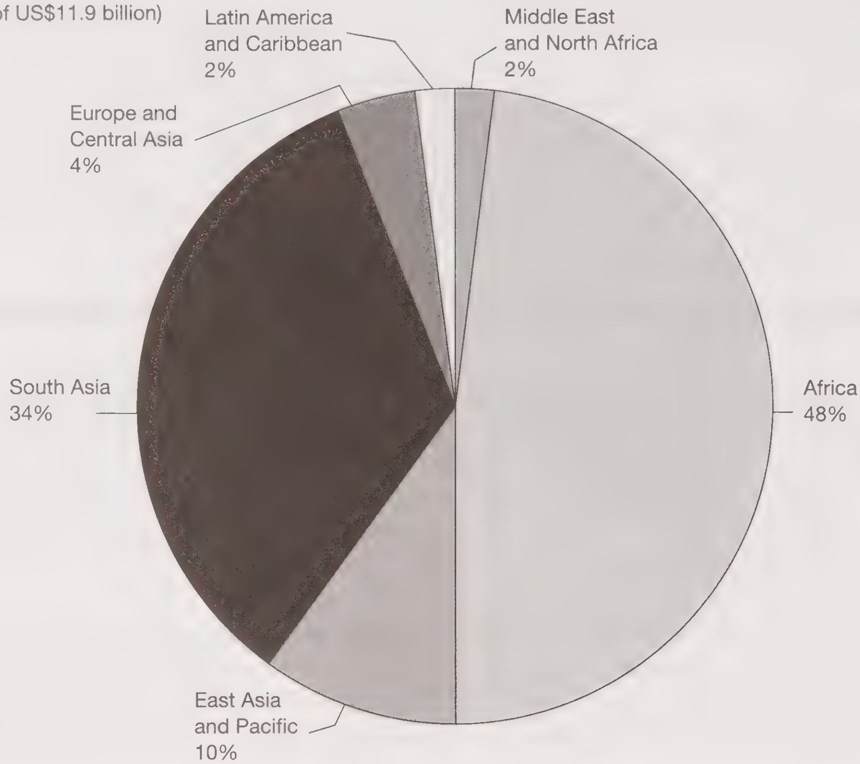
New IDA commitments are financed through donor contributions, annual transfers from IBRD and IFC net income, and IDA's own internal resources (i.e. principal repayment on past loans). Donor contributions make up the largest component of IDA's finances, and a replenishment is held every three years to mobilize new donor pledges for the coming period.

2007 was a record year for IDA commitments, with US$11.9 billion committed to 189 projects. This volume of IDA commitments was 25 per cent higher in dollar terms than in 2006. The largest share of IDA resources were committed to Africa, which received a record $5.8 billion, or 48 per cent of total IDA commitments. South Asia also received a large share of total funding, with US$4 billion in new commitments. Nigeria (US$1.6 billion) and Pakistan (US$0.9 billion) were the largest single recipients of IDA funding. Sectorally, infrastructure, health, education and agriculture were major focuses for IDA financing.

Chart 3

Total IDA Lending by Region, 2007

(per cent share of US$11.9 billion)



Supporting Developing Countries' Priorities

Development programs are most successful when the country has a true sense of ownership and is deeply involved in their design and execution.

Over the last decade, the World Bank has made progress in focusing its lending on borrower countries' development priorities. IDA borrowers begin by setting out their vision for their country's development in a Poverty Reduction Strategy Paper (PRSP). These documents describe the policies and programs they would put in place to promote growth and reduce poverty, as well as associated external financing needs, and are prepared through a participatory process involving civil society and development partners. As of August 2007, 54 low-income countries had prepared PRSPs.

Using the PRSP as its starting point, the World Bank works with the country and other stakeholders to prepare a Country Assistance Strategy (CAS). The CAS identifies the key areas where the Bank Group's assistance can have the biggest impact on poverty reduction and sets out a selective program of Bank Group support, including the level and composition of financial, advisory and/or technical support.

Canada is very supportive of the efforts the Bank has made to advance the country-led development model and we encourage it to continue helping client countries build the institutional capacity to properly define and implement national strategies and to promote truly participatory processes for the development of the PRSP, involving all interested stakeholders.

IFC—International Finance Corporation

IFC at a Glance

- Established: 1956
- Members: 179
- Mission: Promote private sector investment
- Clients: Businesses in developing countries where there is limited access to capital
- Tools: Commercial-rate loans, equity investments, resource mobilization, advisory services
- Size: US$8.2 billion in new commitments, 2007

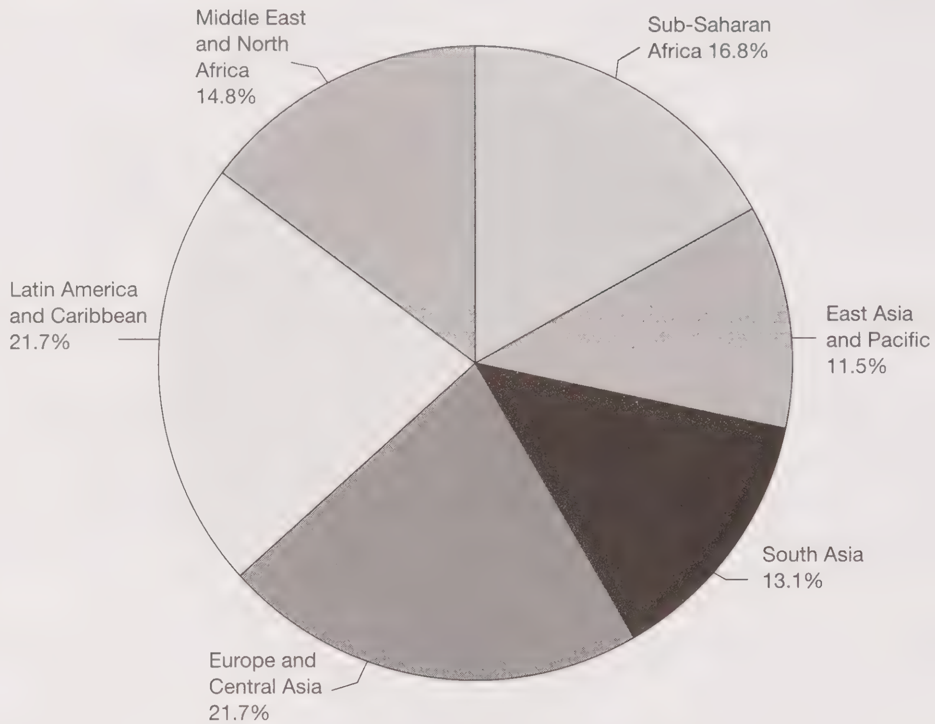
The IFC works with the private sector in developing countries to reduce poverty and encourage sustainable economic growth. It provides financing for private sector projects, assists in mobilizing financing in international financial markets, and provides advice and technical assistance to businesses and governments. The IFC is now the largest multilateral source of loan and equity financing for private sector projects in the developing world. The IFC's mandate stipulates that it provide financing only where sufficient private capital cannot be obtained from other sources on reasonable terms.

The IFC collaborates and coordinates with the IBRD, IDA, MIGA and other organizations, though it is legally and financially autonomous, with its own share capital, management and staff.

In 2007, the IFC's portfolio grew 17 per cent to US$25.4 billion from US$21.6 billion the previous year. New commitments in Sub-Saharan Africa nearly doubled to US$1.4 billion. New commitments in South Asia increased 112 per cent to US$1 billion, and growth in the Middle East and North Africa was up 82 per cent, to US$1.2 billion.

New commitments for frontier markets (i.e. IDA-eligible countries and other high-risk markets) hit an all-time high, with growth of US$2 billion during the fiscal year, and represented approximately 31 per cent of total new commitments. Growth was especially strong in Sub-Saharan Africa, with new commitments in reaching US$538 million, notably in Nigeria (US$147 million), Uganda (US$156 million) and the Democratic Republic of Congo (US$75 million).

Chart 4
Total IFC Lending by Region, 2007



MIGA—Multilateral Investment Guarantee Agency

MIGA at a Glance

- Established: 1988
- Members: 171
- Mission: Promote foreign direct investment in developing countries
- Clients: Investors and lenders
- Tools: Political risk insurance, advisory and legal services
- Size: US$1.9 billion in risk guarantees, 2007

MIGA encourages foreign investment in developing countries by providing guarantees to foreign investors against loss caused by non-commercial risks. MIGA also provides technical support to help developing countries promote investment opportunities and uses its legal services to reduce possible barriers to investment.

In 2007, the total amount of guarantees issued for projects in MIGA's developing member countries reached US$1.9 billion. This represents the third consecutive year of steady growth in guarantees issued by the agency.

Of the new guarantees issued, US$387 million went to projects in IDA-eligible countries and US$ 302 million went to projects in conflict-affected countries. Overall, Africa accounts for 18 per cent of MIGA's outstanding portfolio at US$964 million in gross exposure.

ICSID—International Centre for Settlement of Investment Disputes

ICSID at a Glance

- Established: 1966
- Members: 144
- Mission: Investment dispute resolution mechanism

ICSID provides a conciliation and arbitration mechanism for investment disputes between member countries and private investors. Canada is not currently a member of ICSID as it requires both federal and provincial implementing legislation. Both the federal government and all of the provinces have indicated a willingness to introduce legislation for Canadian membership, and in 2006 Canada signed a convention with the intention of ratification in the near future. ICSID membership would provide Canadian investors with an additional mechanism for the resolution of investment disputes pursued under international arbitration.

The World Bank Group's Internal Checks and Balances

The World Bank Group has in place several bodies to ensure that its activities are achieving results, are carried out with integrity, and are working for the benefit of the vulnerable and disadvantaged in developing countries.

The Independent Evaluation Group (IEG)

The IEG is an independent unit within the World Bank Group reporting directly to the Bank's Executive Board. The IEG assesses the development impact of IBRD, IDA, IFC and MIGA programs. The IEG's goals are to provide an objective assessment of their work, provide accountability in the achievement of the Bank's objectives and ensure that the Bank learns from its experiences.
In 2007, the IEG conducted 27 evaluations of individual Bank projects, 4 country-level evaluations, 5 sector evaluations, and 9 corporate reviews. These reports are available online at: www.worldbank.org/ieg.

Quality Assurance Group (QAG)

QAG's primary objective is to promote increased internal accountability at the Bank by providing staff with credible, timely feedback on operational performance and identifying systemic issues affecting operational performance. It highlights the skills and resources needed to ensure high-quality work and uses lessons learned to support staff training. In 2007, QAG released an assessment of the supervision of Bank projects. An assessment of project design and preparation (i.e. "quality at entry") is expected in early 2008. These are available online at:
http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/QAG/0,,contentMDK:20067126~menuPK:114865~pagePK:109617~piPK:109636~theSitePK:109609,00.html.

Compliance Advisor Ombudsman (CAO)

The Office of the CAO is committed to enhancing the development impact and sustainability of IFC and MIGA projects by responding quickly and effectively to complaints from affected communities. It also supports the IFC and MIGA in improving the social and environmental outcomes of their work and fostering a high level of accountability. The CAO has received 64 complaints since 2000, including 8 in 2007. Ten of these cases were closed in 2007. CAO's Annual Report can be accessed at: www.cao-ombudsman.org/html-english/documents/CAO_AR0607_Engforweb.pdf

The Inspection Panel

The primary purpose of the Inspection Panel is to address the concerns of people who may be affected by IBRD and IDA projects and to ensure that the Bank adheres to its operational policies and procedures during the design, preparation and implementation phases of projects. The Panel is appointed by and reports directly to the Executive Board. In 2007, the Panel completed two investigations and received six new requests for inspection. The Panel's Annual Report can be accessed at: http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/InspP_2007_Annual_Report.pdf

Department of Institutional Integrity (INT)

INT investigates allegations of fraud and corruption in Bank Group operations as well as allegations of staff misconduct, and reports its findings directly to the President. INT also assists in preventative efforts to protect Bank Group funds and ensure they are used for intended purposes. In 2007, INT closed 149 cases of suspected misconduct by external partners, which have so far led to the debarment of 3 firms from participation in Bank-related projects. INT also closed 152 cases of suspected misconduct by Bank staff, which led to the termination of 22 staff and disciplinary action for 22 others. INT's Annual Report can be accessed at:
http://siteresources.worldbank.org/INTDOII/Resources/fy07report-execsum.pdf

Volcker Panel Review of INT

In 2007, an independent review panel, chaired by former Chairman of the Federal Reserve Bank, Paul Volcker, was formed to review the work of the Department of Institutional Integrity (INT) and to strengthen and clarify INT's role in relation to the Bank's broader Governance and Anti-Corruption strategy.

The Panel's recommendations included the creation of an independent advisory board comprising international anti-corruption experts to protect INT's independence and strengthen its accountability, as well as the creation of a preventative services consulting unit to help Bank staff guard against fraud and corruption in Bank projects. The Panel also recommended raising the rank of the head of the department to Vice President. Canada supports the full implementation of the Volcker Panel recommendations. An empowered and effective INT is essential to safeguard against misconduct by external partners and Bank staff.

Canada and the World Bank

This section describes how Canada participates at the World Bank, highlighting the opportunities for Canada to influence Bank policy.

The World Bank is governed by 185 member countries. Each owns shares of World Bank stock and thus holds decision-making power. Every World Bank member state appoints a Governor to represent them on the Board of Governors, the highest authority governing the Bank. Canada's Governor is the Minister of Finance.

The Governors are responsible for core institutional decisions, such as admitting or suspending members, increasing or decreasing the Bank's authorized capital stock, determining the distribution of net income, and reviewing financial statements and budgets.

They delegate responsibility for the day-to-day running of the organization to 24 full-time Executive Directors, located at the Bank's headquarters in Washington, DC. Executive Directors are appointed for terms of two years. In September 2006, Mr. Samy Watson was elected to represent the constituency which includes Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. Governments within the constituency provide advice to the Executive Director on issues discussed at the Executive Board. The Executive Director considers this advice in forming his positions and applies his own judgement as an officer of the World Bank.

The Executive Board usually makes decisions by consensus. In the event of a formal vote, however, the relative voting power of individual Executive Directors is based on the shares held by the constituencies they represent.

Voting power at the Bank is mainly a function of the shareholdings held by a country, which in effect means that voting power reflects the relative economic strength of individual members. A small share of a member's voting power is also determined by basic votes, which are distributed equally among all members.

Table 6

Voting Shares of the 12 Largest Members at the World Bank (IBRD)

Country	% of Total Voting Shares
United States	16.38
Japan	7.86
Germany	4.49
United Kingdom	4.30
France	4.30
China[1]	2.78
Canada	**2.78**
Italy	2.78
India	2.78
Russia	2.78
Saudi Arabia	2.78
Netherlands	2.21

[1] China has slightly more votes than Canada, Italy, India, Russia and Saudi Arabia.

Canada is the seventh largest shareholder at the Bank, having contributed a total of US$5.5 billion in capital subscriptions to the IBRD, IFC and MIGA and US$7.8 billion in donor contributions to IDA. Our voting power ranges from 2.51 per cent to 3.39 per cent within the Bank's different institutions.

Table 7

Canada's Capital Subscriptions, Contributions and Voting Power as of June 30, 2007

(US$ millions, unless otherwise indicated)

	IBRD	IDA	IFC	MIGA
Capital subscription	5,403.8	–	81.3	56.5
Amount paid in	334.9	7,834.8[1]	81.3	10.7
Amount callable	5,068.9	–	–	45.8
Subscription share (%)	2.85	4.68	3.44	3.00
Voting power (%)	2.78	2.77	3.39	2.51

Note: Figures from the 2007 Annual Report for the World Bank, IFC and MIGA respectively for 2007.

[1] IDA figure represents Canada's cumulative contributions.

Members of the Executive Director's Office at the World Bank

Executive Director	Samy Watson (Canada)
Alternate Executive Director	Ishmael Lightbourne (the Bahamas)
Senior Advisor	Terry Winsor (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Brendan Ryan (Ireland)
Senior Advisor	Cal MacWilliam (Canada)
Advisor	Sharmila Prakash Khare (Canada)
Advisor	Carl Oliver (the Bahamas)
Executive Assistant	Monique Piette
Program Assistant	Monica Morris
Phone/fax	202-458-0082/202-477-4155
Address	MC-12-175, 1818 H Street N.W. Washington, DC 20433, USA

IDA Replenishments

Every three years IDA funds are replenished through donor contributions. The replenishment provides another opportunity for Canada to influence policy, as during this process IDA and its donors discuss policy directions for the upcoming period. Governors from each donor country appoint an IDA Deputy to represent them at these discussions, which conclude with a round of donor pledges for the replenishment of the association's finances. Canada's IDA Deputy is Mr. Peter Cameron, Director of the International Finance and Development Division of the Department of Finance.

The Benefits of World Bank Membership

Membership at the World Bank provides significant benefits to Canada, including:

- An important voice in the leading international institution for global poverty reduction and development.
- A vehicle to contribute to development in low-income and emerging countries beyond that which can be achieved through our bilateral programs.
- Participation in an institution that shares our priorities with respect to effectiveness and results; is a key partner for Canada in fragile states; and leads the international community's efforts on debt sustainability.
- An opportunity to partner with the Bank on its research and policy work, which enriches our own understanding of international development.
- Business opportunities for Canadian companies and individuals, through its transparent and fair procurement system.
- The opportunity for closer ties with the countries with which we share a constituency, including a better understanding of their global development priorities and the unique development context in the Caribbean.

Canada at the World Bank: What Happened in 2007

This section describes how Canada delivered on its priorities for 2007, as set out in the 2006 *Report on Operations Under the Bretton Woods and Related Agreements Act.* It also provides an overview of other major developments at the World Bank in 2007. For each major issue, it describes Canada's involvement and summarizes our views, as conveyed through advice to the Executive Director's Office as well as statements at the DC Meetings. The section ends with Canada's voting record at the World Bank for 2007 and information on our financial contributions over the year.

Canada's Priorities in 2007

The "Looking Ahead" section of the 2006 report described Canada's priorities at the World Bank for 2007. There were two priorities listed:

- To use the 2007 IDA replenishment as an opportunity to seek enhancements to World Bank support in three areas: fragile states, debt sustainability and results and effectiveness.
- Further action to end the "lend and forgive" cycle through debt sustainability, including arrears clearance for Liberia.

IDA holds a replenishment every three years to raise new donor financing for its operations. These discussions provide an opportunity for IDA, donors and borrower representatives to review IDA's policies and operations, and agree on changes or enhancements for the upcoming three-year period. Discussions regarding IDA's fifteenth replenishment (IDA15) began in March 2007 and concluded in December 2007.

Canada proposed that fragile states, debt sustainability, and results and effectiveness be chosen as themes for the IDA15 policy discussions. We were pleased that these priorities were shared and accepted by the other members. Participants also agreed to examine IDA's climate change adaptation and mitigation activities.

Altogether, Canada and the other IDA donors secured a number of important policy enhancements in these priority areas, as described below. The IDA15 agreement will be presented to Governors in 2008 for their final approval, and a full list of policy agreements will be released publicly by the summer of 2008. Papers produced for the discussions and meeting summaries are available on the World Bank's website.

Fragile States

Fragile states present a major development challenge, with 35 per cent of the world's poor concentrated in these countries—a share that is expected to grow in the future. Canada has made fragile states a focus for our own bilateral aid, with large programs in countries such as Afghanistan, Sudan and Haiti, and has been advocating for stronger multilateral support in this area as well.

In this regard, the Bank has significantly enhanced its engagement in fragile states over the last few years, including:

- New guidelines to help the Bank tailor its responses in fragile states and avoid a "one size fits all" approach.
- A new rapid response system.

- Staffing improvements in fragile states, including more field presence, better sharing of lessons learned, and specialized backup teams for emergencies.
- The creation of the Low-Income Countries Under Stress (LICUS) Trust Fund to provide a quick-response and flexible funding mechanism.
- A significant increase in IDA financing for fragile states provided in the form of non-repayable grants, rather than loans.

During the IDA15 discussions, IDA, donor countries and borrower representatives suggested further improvements. Canada pushed for an increase in the size and duration of IDA's special funding for post-conflict states and the timely completion of a framework for better coordination between the Bank and the United Nations. These suggestions were echoed by many of the other donors, as well as IDA staff, and both were agreed to, including a US$1.5-billion increase to special financing for post-conflict states.

Canada also supported IDA's proposal for US$1.4 billion in financing to clear the arrears of countries emerging from conflict. This arrears clearance will enable countries such as Côte d'Ivoire, Liberia and Sudan to benefit from IDA support once again.

Debt Sustainability

Canada has been very active in the development and financing of debt relief through the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative (MDRI), which free up resources for recipient countries to redirect to poverty reduction initiatives. Under these programs, Canada has cancelled roughly $1 billion in debts owed to us by developing countries since 2000 and committed to provide the IMF, World Bank and African Development Bank with $2.5 billion over the next 40 years to compensate them for the debts they have cancelled.

Given these efforts, it is critical that the international community prevent a return to the "lend-and-forgive" cycles of the past by helping recipient countries implement sustainable, long-term financial management. The World Bank has played a significant role on this issue through the development of:

- The Debt Sustainability Framework, with the IMF to better monitor and prevent the reaccumulation of unsustainable debt.
- The Debtor Reporting System to collect debt data to improve the transparency of lending and borrowing activities.
- A grant allocation system for IDA under which countries with higher debt risk ratings receive financing in the form of grants, rather than loans.
- A Non-Concessional Borrowing Policy (NCBP) to create proper incentives for IDA-eligible countries to borrow on concessional terms and ensure that debt sustainability is maintained.
- Tools and technical assistance to help borrowers strengthen their debt management.

During the IDA15 discussions, Canada encouraged the Bank to further strengthen its tools to assess and encourage debt sustainability. Canada and other donors urged the Bank to strengthen their work to build debt management capacity in recipient countries. IDA agreed to develop a medium-term debt management strategy tool to assess a country's capacity to maintain debt at sustainable levels and enhance advisory services for IDA clients. IDA also agreed to conduct regular debt sustainability assessments for all of its clients and publish its analyses on its website to help increase the transparency of borrowing decisions.

Canada also suggested that the Bank expand the scope of the NCBP to consider not just the rate of accumulation of non-concessional debt, but also the rate of accumulation of concessional debt (i.e. low or no interest loans provided by donors and organizations like IDA), when assessing IDA clients' debt situations. While this was not agreed to by all participants for the IDA15 period, IDA did agree to provide regular updates on its experience with the NCBP, and Canada will continue to monitor its effectiveness and advocate for the Bank to recognize the role of concessional loans in debt sustainability.

Results and Effectiveness

Given the enormous needs of developing countries, donors and recipients should ensure that each dollar available for international assistance goes as far as it can in terms of development results. To this end, Canada made a commitment in its 2007 budget to improve the effectiveness of its own aid program and we have been pushing our multilateral partners to strengthen their focus on results and effectiveness as well.

The World Bank has been a leader in this area, with considerable progress in the last few years on two fronts:

- Results Measurement
  - IDA has implemented of a Results Measurement System to measure overall development outcomes in IDA countries and IDA's particular contribution to those outcomes.
  - The Bank has introduced results-based CASs.
  - The Bank has provided significant financing and technical assistance to build client countries' ability to properly collect and report development statistics.
- Country-Level Effectiveness
  - Donor harmonization, to eliminate duplicative tasks and reduce the administrative burden on governments, is a core part of improving aid effectiveness and IDA has performed comparatively well in this area.
  - While IDA remains the lead donor for many of the projects and programs it supports, it is also, where appropriate, assuming a supportive role with other development partners taking the lead.
  - The Bank is implementing a significant decentralization of staff for faster and more informed decision making at the country level.

During the IDA15 discussions, Canada and many other donors urged IDA to strengthen its work on statistical capacity building to ensure that results are being properly measured and that the data is being used to shape policies and programs. It was agreed that IDA would incorporate a more comprehensive discussion of weaknesses in statistical capacity in each CAS, follow up with financing and technical advice, where appropriate, and improve staff incentives to focus on results. Canada also encouraged IDA to strengthen its Results Measurement System by including gender-disaggregated data in order to report on and properly target progress on gender equality. IDA agreed to work towards this goal.

To further improve effectiveness at the country level, Canada and many other donors urged IDA to do more to draw non-traditional partners, including new multilateral funds, emerging donor countries and private sector donors, into its harmonization and alignment efforts. This was agreed, along with further progress in decentralization, internationally recruited staff, the use of recipient country systems for program delivery and more predictable disbursements.

Climate Change

There is strong consensus that climate change presents an urgent challenge to the entire international community, but it is of particular concern to developing countries as they will suffer most from the impact of variable climate. IDA15 participants therefore agreed that it was important to discuss IDA's role in helping client countries with climate change adaptation and mitigation efforts.

Canada welcomed these discussions, as climate change is a development issue which IDA is well placed to address. We noted the need to harness the strength of the private sector, given the enormous financial and technological needs, and urged IDA to ensure that its activities are properly coordinated with other partners in this area, including the Global Environment Facility (GEF).

It was agreed that IDA would mainstream climate change adaptation into CASs, pilot tools for better climate risk management, scale up financial support for these projects, tap into carbon finance[13] to fund increased use of clean energy technologies, and improve coordination with the GEF and other donors in this area.

IDA15 Financial Contributions

The replenishment provided IDA with a record US$41.6 billion in contributions for the three years beginning July 1, 2008. Of this amount, US$25.1 billion will come from donors, a 42-per-cent increase over donor contributions in IDA14 (see Chart 5).

Canada has committed C$1.3 billion (SDR 798 billion) over the next three years, funded from our International Assistance Envelope (IAE), Canada's source for aid spending.[14] This represents a considerable increase in our IDA support, up almost 50 per cent in SDRs from our IDA14 contribution (C$1.04 billion; SDR 534 billion). However, with the appreciation of our currency, our Canadian dollar payments to IDA will rise by 25 per cent.

Altogether, we will provide 4 per cent of total donor financing for IDA15, up from 3.75 per cent under the last replenishment. Our IDA contribution will account for 9.2 per cent of Canada's aid budget for 2008, up from 7.4 per cent in 2007.

Our strong financial support for IDA15 reflects a strong alignment between the institution's operations and Canada's aid priorities:

- Canada's 2007 budget committed "to make our existing aid resources work more effectively." IDA is widely held to be one of the most effective aid institutions.

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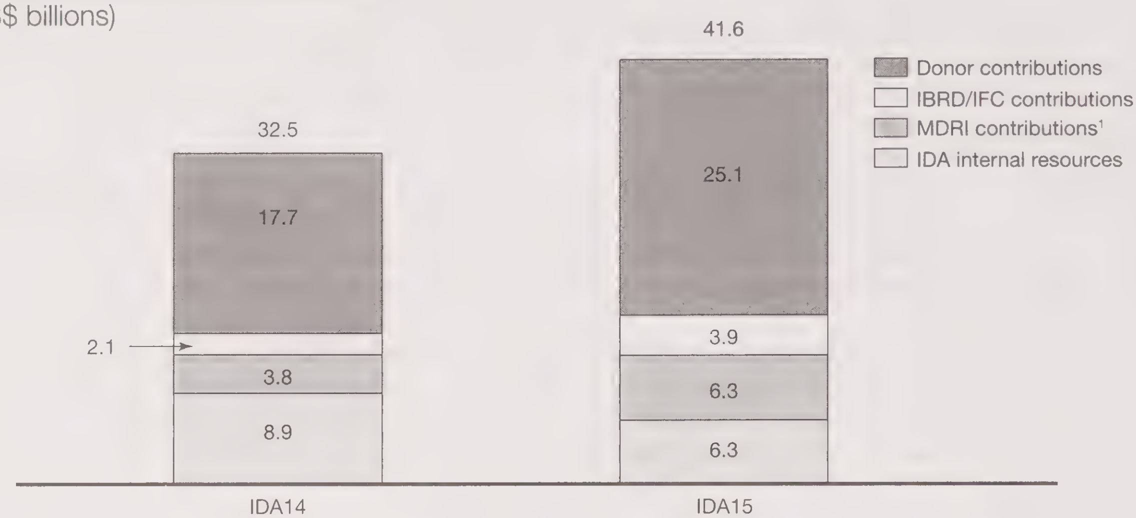
[13] Money contributed by governments and companies in Organisation for Economic Co-operation and Development countries to purchase project-based greenhouse gas emission reductions.

[14] Budgets 2006 and 2007 reaffirmed Canada's commitment to double aid spending to about $5 billion per year by 2010–11 (from 2001–02 levels of about $2.5 billion) through IAE growth of 8 per cent per year. The increase in our IDA contribution will be funded out of this 8-per-cent growth.

Chart 5
IDA14 and IDA15 Contributions
(US$ billions)



[1] Donor contributions to compensate IDA for loan repayments and interest lost from cancellation of debt under the Multilateral Debt Relief Initiative.

- Canada's 2007 budget also announced that Canada will be focusing its traditional bilateral aid in fewer countries to improve effectiveness. Enhanced support through our IDA15 contribution allows Canada to maintain an important multilateral presence in countries where we will no longer be active bilaterally.
- As over 50 per cent of IDA's resources are expected to go to Africa, our strong IDA15 pledge supports Canada's commitment to double our aid to Africa by 2008–09 from 2003–04 levels.
- Significant focus on fragile states, debt sustainability and results.
- IDA seeks to build country systems (e.g. regulatory and transportation systems, good governance), creating enabling local environments in which our bilateral efforts can achieve better results.

Ending the "Lend-and-Forgive Cycle"

As indicated in the 2006 report, a second broad priority for Canada in 2007 was to help end the "lend-and-forgive" cycles of the past by promoting debt sustainability. To this end, progress was achieved on several fronts. First, a number of important enhancements were agreed to in the IDA15 discussions, as discussed in the subsection "Debt Sustainability" under "Canada at the World Bank: What Happened in 2007."

In addition, Canada actively worked with other G7 countries to push the World Bank and IMF to strengthen their joint Debt Sustainability Framework (DSF). Assessments of sustainable debt levels under the DSF have now been expanded to look not just at a country's overall debt stock, but also its rate of debt accumulation.

Finally, Canada and other G8 countries achieved important progress on arrears clearance, a key step in achieving debt sustainability. A number of heavily indebted poor countries (HIPCs) have large arrears owing to the World Bank, IMF and African Development Bank (ADB), as long periods of severe conflict have impeded their capacity to repay past loans. Until their arrears are cleared, these countries cannot benefit from debt relief under the HIPC Initiative or MDRI, or receive concessional financing from the World Bank, IMF or ADB to help them emerge from conflict. Clearance of these arrears requires substantial financial resources and coordination efforts by the international community. Liberia's arrears were addressed in 2007, representing the first case of large-scale arrears clearance.

After many years of civil war, Liberia has made tremendous strides in establishing political and economic stability. However, a legacy of high debt has prevented much-needed social investments. A major obstacle to receiving significant debt relief under the HIPC Initiative and MDRI was the US$1.5 billion in arrears that Liberia owed to the IMF, World Bank and ADB.

Securing adequate financing to clear Liberia's arrears took concerted effort by the G8, with Canada playing a leading role. Canada contributed C$44 million and actively encouraged others to do their part. In January 2008, adequate funding was secured from donors and an agreement was reached on a strategy to clear Liberia's arrears to all three institutions, making the country eligible for a total of US$3 billion in debt relief under the HIPC Initiative and MDRI.

Liberia's arrears clearance operation is a great demonstration of donor cooperation and will help pave the way for other countries facing significant arrears due to protracted conflicts. Canada's leadership in this operation underscores our commitment to helping well-performing developing countries receive the support they need to reach their long-term development goals.

Other Developments in 2007

Paul Wolfowitz's Resignation

In May 2007, the Executive Directors began investigating allegations of possible misconduct by Paul Wolfowitz, then President of the World Bank. At that time, Canada's Governor urged the Bank to undertake a fair and transparent process to assess Mr. Wolfowitz's actions. To this end, a panel of Executive Directors was set up to investigate the allegations in a fair and transparent manner.

On May 14, the panel found that Mr. Wolfowitz had violated Bank rules in arranging an assignment for his partner. Mr. Wolfowitz offered his resignation to the Executive Board on May 17. After a discussion with Mr. Wolfowitz, the Executive Directors accepted his resignation, stating that, while a number of mistakes were made, they accepted that those involved acted ethically and in good faith.

Robert Zoellick's Nomination

Canada has long called for the Bank to introduce an open, transparent and merit-based process for the selection of its President. To this end, in May 2007, the Executive Board put out a call for any Executive Director to make a nomination and set a firm timetable and profile of key selection criteria, which was publicly released. The sole nominee was Robert B. Zoellick, a former US Trade Representative and Deputy Secretary of State. The Executive Board held an informal meeting with Mr. Zoellick to discuss key issues of interest to the Bank before making its decision.

Mr. Zoellick was confirmed as the World Bank's 11th President in July 2007. He brings a strong record of experience to the job, and Canada was supportive of his nomination. Looking ahead, Canada will work with others on the Executive Board to put in place a process to allow for the selection of the best-qualified candidate, regardless of nationality.

A New Strategic Direction

To support his vision for the Bank as a catalyst for "inclusive and sustainable globalization," Mr. Zoellick outlined six strategic themes for the Bank's future direction.

1) Meeting the needs of the poorest, particularly in Africa.

2) Fragile and post-conflict states.

3) Middle-income countries.

4) Regional and global public goods (GPGs).

5) The Arab and broader Islamic world.

6) The development learning agenda.

President Zoellick discussed these themes with the Bank's Governors during the Annual Meetings in October 2007 and has set up working groups to look at specific actions within each of the six areas. Canada welcomes these efforts to better define the Bank's long-term strategy, and we urged the Bank to work towards the following goals:

- **Appropriate focus**. For the Bank to maximize its effectiveness, it needs a strategy that helps it focus on its strengths within each of the six broad areas, rather than spreading itself too thinly. This would involve moving away from activities where the Bank is seeing low results, or where other organizations are better placed to lead efforts.
- **Engaging the private sector on GPGs**. A long-term, sustainable approach on GPGs will require greater engagement with the private sector. In particular, innovative financing initiatives, like the Advance Market Commitment and the Caribbean Catastrophe Risk Insurance Facility, can work to mobilize private sector investment. We see innovative initiatives such as these as crucial in pushing the GPG agenda forward.
- **Synergies within the World Bank Group**. It is important that the Bank improve coordination across its different agencies to better leverage all of its tools to maximize development impact.

Governance and Anti-Corruption

Corruption is an obstacle to economic and social development as it undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. The harmful effects of corruption are especially severe on the poor, who are hardest hit by economic decline, are most reliant on the provision of public services, and are least capable of paying the extra costs associated with bribery, fraud, and the misappropriation of economic privileges.

In April 2006, Governors asked the Bank to elaborate a broad governance strategy to help member countries strengthen governance and deepen their fight against corruption. Following extensive consultations with representatives of governments, donors, civil society, parliaments, the private sector, academia and other stakeholders, the Bank produced a Governance and Anti-Corruption (GAC) strategy, which it presented to Governors at the World Bank-IMF Spring Meetings in 2007.

Canada supported the original call for a renewal of the Bank's approach to government accountability and corruption, as these are priority issues for the Government of Canada, both domestically and abroad. We encouraged the Bank to put in place transparent operational guidelines for the handling of situations where corruption and weak governance are a concern. Through our interventions at the Executive Board, in discussions with Bank senior management and through involvement in jointly funded activities such as Trust Funds and other initiatives, Canada is actively working to hold the Bank and its partners to a high standard.

As the Bank implements the GAC strategy, we would like to see an emphasis on results. In particular, the Bank and countries concerned should work in partnership to measure and monitor results at the country level and set GAC markers to gauge progress.

The Governance and Anti-Corruption Strategy

The GAC Strategy Aims to Improve Governance and Fight Corruption at the Project, Country and Global Level

Project level	• More clearly integrate good governance into the preparation of Bank projects. • Intensify supervision, detection and enforcement, especially for activities where the risks of corruption are high.
Country level	• Intensify capacity building work, including public financial management, procurement and civil service reform. • Expand work on initiatives to strengthen transparency, participation and oversight in partnership with governments, the private sector and civil society.
Global level	• Strengthen bilateral and multilateral partnerships to promote coordinated donor action, especially in high risk environments. • Intensify engagement with the private sector in tackling corruption.

The StAR—Helping Developing Countries Recover Looted Funds

An integral part of the GAC strategy is the Stolen Asset Recovery (StAR) initiative, launched by the World Bank and the United Nations (UN) Office on Drugs and Crime in September 2007 to step up international efforts to recover developing countries' stolen assets and stem the flow of looted funds.

Stolen assets are often hidden in the financial centres of developed countries, and bribes to developing country officials often originate from firms operating in both developing and developed countries. The StAR initiative's objective is to create the global partnerships needed to address this problem. A core part of the StAR Action Plan is advocacy to persuade developing and developed countries to ratify the UN Convention Against Corruption (UNCAC), the first global anti-corruption agreement that provides a regime by which proceeds of corruption can be returned to their rightful owners. It will also provide legal and technical advice to countries attempting to recover stolen assets, and services to monitor recovered assets to ensure that they are used transparently and effectively.

Canada is committed to fight corruption as a worldwide problem that undermines democracy, human rights and the rule of law. We played an active role in developing the UNCAC and made a commitment, under the April 2006 Federal Accountability Action Plan, to ratify the Convention as soon as possible. In May 2007, Parliament passed legislation to make Canadian law consistent with the provisions of the Convention and in October 2007 Canada ratified the UNCAC.

Health

In April 2007, the World Bank released a new strategy entitled, Healthy Development: The World Bank Strategy for Health, Nutrition, and Population (HNP) Results, as an update to its 1997 HNP strategy. The development of a new strategy was prompted by recent changes in the global context for health financing, including:

- Increased global attention to HNP in developing countries, with total financing jumping from US$6 billion in 2000 to US$14 billion in 2006.
- An explosion of new multilateral, bilateral and private initiatives that has challenged the World Bank's traditional role as the predominant HNP financier, and created a system with several large financiers.
- Many of the new organizations focus on one priority disease.
- Renewed recognition of the importance of strengthening health systems as a whole for sustainable outcomes and to support the success of priority disease interventions.

The new HNP strategy was also designed to address challenges within the Bank's HNP program. In particular, it ranked lowest in terms of implementation quality among all sectors in the Bank for the last five years and suffered from a very weak focus on measurement of results, making progress difficult to track.

The updated strategy is intended to improve the Bank's contribution to HNP by renewing its focus on results and concentrating on its areas of comparative advantage, in particular strengthening overall health systems and ensuring adequate human and financial resources remain available for core health programs.

We believe that a number of new global HNP initiatives play a key role in mobilizing donor financing and providing targeted interventions, and we have provided several projects with significant contributions.[15] However, we also recognize that the rapid proliferation of these initiatives and lack of coordination places a real burden on developing countries and creates challenges at the country level. We are pleased that the new HNP strategy will include a focus on assisting countries in effectively integrating global programs into national health care systems and will strengthen the Bank's focus on effective coordination with other donors and organizations on the ground. As a bilateral donor, Canada is also actively engaging in donor coordination efforts at the country level.

Clean Energy

Affordable and sustainable energy services are central to economic development and improved living standards, and it is expected that developing countries will account for much of the future increase in energy consumption. Recognizing that fossil fuels will continue to be the single greatest fuel source to meet growing demand, Canada and other G8 countries at the Gleneagles Summit in 2005 called on the World Bank to take a leadership role in creating a new framework to accelerate global investment and financing for clean energy and development.

In developing the Clean Energy Investment Framework (CEIF), Canada encouraged the Bank to strike an appropriate balance between the global need to take action on climate change and the need for the poorest countries to have access to affordable and sustainable energy to lift themselves out of poverty.

And, while we encouraged the Bank to scale up its support for clean energy sources to support the CEIF, we also realize that oil and coal will continue to be a major fuel source for the world's poorest people for the foreseeable future and that extractive industries will remain important for the economies of many developing countries. We therefore supported the Bank's plan to retain some level of participation in the oil and coal sector, as we believe that by staying engaged, it can have an influential role in ensuring that the best environmental and social practices are followed and that the goal of sustainable poverty reduction is achieved. Altogether, the Bank's participation in oil and coal is expected to remain relatively small (less than 5 per cent of total lending per year).

Finally, we urged the Bank to ensure that the CEIF highlights the critical role of the private sector in accelerating the transition to a low-carbon economy, as it is clear that we will not succeed unless this challenge is taken up in the marketplace. The CEIF should help the international community determine how it can best make use of its financial, technical and convening abilities to mobilize this much-needed private investment.

[15] Including the Global Fund to Fight AIDS, Tuberculosis and Malaria (Canadian contributions of $528 million since 2001), the Global Alliance for Vaccines and Immunization ($188 million since 2001), and the Global Polio Eradication Initiative ($235 million since 1988).

In this regard, Canada has been encouraging the Bank and others to look beyond their traditional focus on country-level interventions to consider what role it can play in catalyzing private sector participation in addressing climate change at the global level. In particular, the time may be ripe to consider an innovative financing initiative, similar to the Advance Market Commitment initiative, to accelerate global investment in the development of new clean energy technologies.

The CEIF was approved by the Bank's Governors in April 2007.

Three Areas of Action for the World Bank Under the CEIF

Access to energy	• Policy and regulatory support to help client countries improve financing prospects and scale up investments. • A particular focus on Africa, with a target of providing electricity access to 29 million more people by 2015.
Transition to a low-carbon economy	• Strengthen program of analytical work and scale up low carbon investments. • More financing for the incremental costs of clean energy projects through new mechanisms for carbon financing. • Studies to help identify lower-carbon development paths that respect poverty alleviation and economic growth targets for India, China, Brazil, Mexico and South Africa.
Climate change adaptation	• Scale up efforts and create new tools to assess countries' risks from climate change; build their capacity to manage risks; and invest in adaptive measures.

We are pleased to see that the Bank has already made substantial progress in implementing its Action Plan under the CEIF, for example:

- Total World Bank Group lending for energy projects is to exceed US$10 billion for the 2006–2008 period, up from US$7 billion in 2003–2005.
- Support for energy in Sub-Saharan Africa rose to US$1.1 billion in 2007, compared to US$0.6 billion in 2006.
- Lending for low-carbon projects represented 40 per cent of energy lending in 2007, up from 20 per cent in 2004, while lending to oil, gas and coal fell from 29 per cent to 17 per cent.
- Two new facilities were created to scale up the use of carbon finance: the Carbon Partnership Facility and the Forest Carbon Partnership Facility.
- Consideration of climate change vulnerabilities was mainstreamed in 32 per cent of CASs in 2007, up from 15 per cent in the 2000–2005 period.
- The Bank launched the first regional disaster insurance facility in the world, the Caribbean Catastrophe Risk Insurance Facility, which will help with climate risk management and adaptation.

Innovative Development Initiatives

Advance Market Commitment (AMC)

An Advance Market Commitment (AMC) is an innovative way to protect the lives of the world's poorest children by making vaccines available in developing countries more quickly. Although vaccines are an extremely cost-effective development tool, vaccine-makers invest relatively little to create vaccines for diseases prevalent in developing countries, given the perception that the countries will have limited capacity to pay for them. Under an AMC, donors put money aside with a promise to supplement the purchase price of vaccines once they are developed. This stimulates vaccine-makers to accelerate efforts, as they have more certainty about recouping the costs of developing these vaccines and bringing them to market. Donor funding is guaranteed as long as vaccines meet stringent, pre-agreed criteria regarding effectiveness, cost and availability; there is demand from developing countries for the vaccines; and the vaccine-maker agrees to continue supplying vaccines at fair prices that developing countries can afford after the pool of donor funding has been exhausted.

Canada has played a leadership role in moving the AMC model from a promising theoretical concept to a functioning program. Working closely with the World Bank, the Global Alliance for Vaccines and Immunization (GAVI) and a handful of other donors, Canada has very actively participated in the design, financing and implementation of the AMC. Canada was also the first to make a financial commitment to the initiative, with an announcement at the G8 Summit in St. Petersburg in 2006, a move that helped galvanize commitments from other donors over the months that followed.

In February 2007, Minister Flaherty, with his counterparts from Italy, the United Kingdom, Norway and Russia, together with the Bill & Melinda Gates Foundation, the World Bank and GAVI, officially launched the AMC at a special event in Rome. Altogether, donors committed US$1.5 billion for a pilot AMC for pneumococcal disease, a leading cause of childhood mortality in the developing world. Canada's total contribution will be US$200 million.

A key strength of the AMC mechanism is that donors only pay for success. Vaccines bought under the AMC scheme will have to meet strict criteria, set by an independent committee. No AMC money will be paid out until, and unless, the right vaccine is developed.

The pilot AMC aims to accelerate the introduction of a pneumococcal vaccine for the developing world by up to 13 years, from 2023 to 2010. It is estimated that this could save 5.8 million lives by 2030.

Caribbean Catastrophe Risk Insurance Facility (CCRIF)

Launched in 2007, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) is the first regional disaster insurance facility in the world, providing participating Caribbean countries with rapid and guaranteed cash payments in the event of a "catastrophic" earthquake or hurricane.

The CCRIF is another innovative development tool in which Canada has taken a lead role. Canada has been involved in the CCRIF since its beginning stages, actively working with our Caribbean constituents to create a financing option that responds to their needs. The Executive Director representing Canada at the Bank played a key role in gaining full Caribbean participation in the Facility. We have also demonstrated our commitment to the CCRIF by contributing $20 million to the initiative, making Canada by far the Facility's largest donor, as well as actively encouraging other donors to contribute.

The CCRIF provides many benefits. The rapid and guaranteed cash payment provided when a natural disaster triggers the Facility's payment threshold ensures that funds are available to finance immediate post-disaster recovery and should give governments time to mobilize additional resources for longer-term reconstruction activities. Further, by pooling the individual risks of participating countries, the Facility lowers the cost of insurance coverage by approximately 40 per cent, thereby providing Caribbean countries with an insurance option that would be too costly to undertake individually. In addition, donor contributions to the facility serve to lower premium payments even further. IDA has also provided financing to help countries such as Dominica, Grenada and Haiti pay their premiums.

In the aftermath of Hurricane Dean in August 2007, the CCRIF came under criticism from some constituents as payment was not triggered. This stemmed largely from a misunderstanding over the purpose of the Facility and to the agreed trigger threshold levels—the CCRIF is designed as a response to truly catastrophic events, and Hurricane Dean fell below the threshold level. Following discussions between CCRIF administrators, the World Bank and CCRIF member countries, several modifications were made to better align the Facility with the expectations of Caribbean country members. Some of these changes include: lower premiums, higher maximum payouts, a minimum payout size, a lower trigger point and increased disaster risk management support. As a pilot project for a new and innovative disaster financing tool, the CCRIF will continue to evolve over time as experiences are incorporated, member country needs are refined and expectations clarified.

The CCRIF had its first payout in December 2007. Both Dominica and Saint Lucia received approximately US$500,000 following an earthquake that triggered payment.

Conditionality

In response to stakeholder concerns over the scope and complexity of policy conditionality that accompanies its lending, the Bank conducted a review in 2005, and implemented a new policy in 2006 to help better focus its conditionality. The policy introduced five good practice principles: country ownership, harmonization, criticality, transparency and predictability, and customization to country circumstances. An update on the implementation of the new policy was provided to the Executive Board in December 2007. This report found that Bank activities have been broadly consistent with the good practice principles.

Canada strongly supports these good practice principles, which facilitate the country-led formulation of economic and other reforms critical to the development process. We believe that conditionality can provide important incentives for meaningful reform, but that the conditions applied should be limited to only those essential for the success of the program or project. We note that during the IDA15 discussions, African leaders delivered the clear message that well-designed loan conditions can help improve their success in implementing priority reforms.

Canada's Voting Record in 2007

Canada and other shareholders typically raise concerns and questions about specific Bank operations before they get to the Executive Board. As a result, decisions at the Board are generally taken by consensus. Executive Directors may, however, abstain or vote against projects or policies in consultation with their constituencies. In 2007, the Executive Director representing Canada supported all policies and projects approved by the Board, with two exceptions, as detailed below.

Similarly, the Board of Governors is asked to vote on a number of resolutions throughout the year. Below are Canada's positions on the four resolutions taken in 2007.

Voting Record of the Executive Directors Representing Canada in 2007
(only oppositions or abstentions listed)

- In November 2007, Canada's Executive Director at the World Bank abstained on an IFC Investment in the Masinloc Coal-Fired Thermal Power Project in the Philippines, owing to concerns over a significant investment in a less-than-cleanest technology coal plant. While it was recognized that coal will continue to be an important energy source for the Philippines over the medium term, investments in such operations should be set within an overall strategy to move toward cleaner energy sources. In the absence of such a strategy for the Philippines, IFC investment in this project was seen as not advisable.
- In December 2007, Canada's Executive Director at the World Bank abstained on a proposal to extend the IFC's Performance-Based Grants Initiative (PBGI) pilot. The PBGI is designed to provide aid to the private sector for reaching specific performance based targets. In reviewing the proposal, it became clear that some of the funds were being used for technical assistance and did not differ from existing business lines at the IFC. This, combined with inadequate responses from IFC management to a series of questions raised by the Executive Director and his colleagues about the PBGI, led to an abstention by a number of Executive Directors. The Executive Director will review the use of performance-based aid to the private sector once a thorough evaluation of the PBGI pilot has been completed.

Voting Record of the Canadian Governor in 2007

- Canada did not support a transfer from IBRD surplus funds to the Trust Fund for Gaza and West Bank in January 2007, owing to concern over the possibility of indirect benefit for the Hamas-led Palestinian Authority, and Canada's legal and foreign policy position.
- Canada supported the Republic of Montenegro's request for membership in MIGA in January 2007.
- Canada supported a transfer from IBRD surplus funds to the Low-Income Countries Under Stress Trust Fund in January 2007 to support the poorest, conflict-affected countries.
- Canada supported an increase in the salaries for the Executive Directors at the World Bank in August 2007 to reflect the increase in the cost of living in Washington, DC.

Canada's Financial Contributions in 2007

Canada is an important provider of donor funding for the World Bank. In 2007, we made the following contributions:

- **IDA**: In January 2007, Canada made its third and last payment of $318 million, as pledged under the IDA14 agreement.
- **Multilateral Debt Relief Initiative (MDRI)**: In 2005, Canada committed to provide a total of $1.75 billion over 40 years to compensate IDA for the loans it agreed to cancel under the MDRI. In 2007, we made our second payment under this commitment, for a total of $46.3 million to date.
- **Multi-Donor Trust Funds (MDTFs)**: Canada also makes use of World Bank-administered MDTFs, where the World Bank manages funds on behalf of multiple donors. MDTFs have been established in a number of post-conflict situations in order to mobilize resources and coordinate reconstruction efforts. In FY2006–07, Canada contributed a total of $292 million to these funds, and a further $198 million in FY 2007–08.[16] See Annex 10 for a table of these contributions.

[16] Up to December 31, 2007 only.

Canada's Medium-Term Priorities at the Bretton Woods Institutions

Canada remains committed to giving clear voice to its guiding principles and priority issues at the IMF and World Bank. Building on the 2006 report, this section articulates Canada's medium-term priorities for the Bretton Woods Institutions as well as the Department of Finance's strategy over the next three years to support those priorities.

The Government's priorities fall under three themes: 1) governance and accountability; 2) institutional effectiveness; and 3) sustainable poverty reduction and growth. To promote greater accountability and transparency regarding Canadian activities at the Bretton Woods Institutions, specific actions are listed that indicate where the Government of Canada plans to concentrate its resources and advocacy over the next one to three years. Subsequent reports will return to these priorities and actions to measure Canada's success in achieving its goals.

Canada's Medium-Term Priorities Fall Under Three Themes

1) **Governance and Accountability**—Playing a leadership role in pushing for innovations in the governance and accountability structures of the Bretton Woods Institutions.
2) **Institutional Effectiveness**—Encouraging both institutions to deliver on their core mandates as effectively as possible.
3) **Sustainable Poverty Reduction and Growth**—Supporting the IMF and World Bank's efforts to ensure that the growth and stability they help foster today will have a lasting effect over the long term.

1) Governance and Accountability

The Government of Canada is committed to promoting good governance and accountability both at home and in its relations and operations in the international community. One of Canada's main objectives at the Bretton Woods Institutions (BWIs) is to ensure that they are well governed and accountable to their memberships and other stakeholders. Canada considers it critical that their governance structures be representative of the membership and their operations reflect the priorities agreed by that membership. Further, the BWIs must be financially sustainable and transparent. These elements are central to the institutions maintaining their relevance and legitimacy in an evolving global context.

Priority 1.1: Governance Reforms

A key challenge for the BWIs will be to adopt a more representative governance structure in order to reflect a changing global economy. Both institutions also face budgetary challenges that must be met. Finally, transparent decision making and operations are essential for well-governed institutions, and Canada will press the IMF and World Bank to build on considerable recent progress in these areas.

Pushing for Concrete Progress on IMF Quota and Voice Reforms

In the near future, the most important priority for Canada at the IMF is coming to agreement on a package of quota and voice reforms that leaves the Fund a more legitimate and representative institution. As previously noted, Canada supports the creation of a simple and transparent quota formula, which will reward dynamic economies and realign quota shares. We also strongly support protecting the vote share of low-income countries through a significant increase in basic votes. With a view to meeting the fall 2008 deadline for concluding the exercise, Canada will engage at the Executive Board and with our G7 and G20 partners, looking for points of agreement and proposing realistic solutions to remaining challenges that are consistent with Canada's principles for governance reform.

However, as previously mentioned, quota and voice reforms face significant challenges and there is considerable uncertainty about the outcome. Depending on the result of the negotiations, Canada will work at the Executive Board over the medium term to implement the agreed reforms, or be a driving force to find an alternative solution that reaches the membership's common goal of a more representative IMF. Canada's medium-term priorities for IMF governance reforms in next year's report will be developed based on our experiences in 2008.

Building Momentum for Reform at the World Bank

Like the IMF, the World Bank is facing pressure to ensure that developing country members have sufficient voice and participation in the institution. Voice reform has been a topic in a number of Development Committee Meetings since 2003.

World Bank staff are now working with shareholders to identify options that could comprise a reform package. The list of options covers not only changes in shareholding and voting power, but also possible reforms to institutional governance. These include reforming the size, term length and composition of the Executive Board and continued efforts to increase the representation of developing country nationals in senior management.

The Bank is taking a two-stage approach to formulating a reform package. The majority of institutional governance options will be addressed in the first phase while more complex options, such as adjustments in shareholding, will fall under the second phase. The first results of this exercise will be presented at the Spring Meetings in 2008.

Canada is very supportive of the Bank's voice reform exercise, as there is clearly a need to enhance the voice of developing countries within the institution. We are open to a reform package that includes at least a doubling of basic votes as a way of enhancing the voting power of the Bank's small and low-income members and would support proposals to introduce selective capital increases to ensure that all developing members benefit.

However, we also recognize that any adjustments to shareholdings must ensure that the Bank has sufficient financial backing to allow it to continue to borrow at the lowest possible interest rate and provide development financing at lowest cost. Thus, it is important that distribution of Bank shares should continue to be primarily based on each member's weight in the global economy.

We are also pleased that the reform exercise will look more broadly at improvements to the Bank's institutional governance, including enhancing the effectiveness of the Executive Board.

Action: Support discussions across the membership and play a bridging role on a new IMF quota formula, ad hoc quota increase and basic votes increase.

Timeline: 2008

Action: Support the development of a reform package at the World Bank that enhances the voice of developing country members through an appropriate mix of reforms to voting, shareholding and other institutional processes, while preserving the Bank's ability to borrow at the lowest possible interest rates.

Timeline: 2008–2010

Priority 1.2: Sound Finances

Another major challenge for the institutions will be to ensure that their financial situations are sound and sustainable for the future. This will require stakeholders to review the Fund and Bank's income and expenditure models.

Early Progress at the IMF in 2008

Canada supports the development of a package of measures that would eliminate the IMF's budget deficit and restore its finances to a sustainable footing. In particular, Canada is pushing for the inclusion of substantive expenditure and staff reductions as a complement to measures to increase IMF income. Our goal is budget reforms that result in a more cost-effective IMF that focuses its outputs on core institutional strengths and practises good financial governance. On the income side, we support a limited sale of IMF gold to provide greater investment income. We also support other Crockett report recommendations such broadening the scope of permitted IMF investments to increase the return on Fund resources.

The Managing Director has proposed the Spring Meetings in April 2008 as an ambitious target date to reach an agreement in principle on reforms to IMF finances. Canada will work to support this goal by continuing to actively contribute to the discussion of these proposals as they are elaborated at the Executive Board in the first part of 2008. We will also continue to show leadership at the IMF Executive Board in 2008 regarding efforts to cut the Board's operating budget on a magnitude similar to the overall cut in IMF spending.

Planning for the Future at the World Bank

At the World Bank, the challenge is not its current finances, but its sustainability in the future. While the IBRD realized income of US$1.7 billion in 2007, the outlook for the future is more uncertain, in particular due to the global low interest rate environment (which prompted significant reductions in the IBRD's loan pricing in the fall of 2007). At the same time, there has been growing demand for the IBRD to contribute from its income to other development purposes (e.g. transfers to IDA, support for the global public goods agenda). The Bank and its members should consider whether the IBRD's income model can be adjusted to ensure that its financial sustainability will not be in jeopardy in the future, and that it will be able to generate income to continue making important contributions to other initiatives.

Canada has also been at the forefront of the call for reforms to the Bank's administrative budget. For example, we have been encouraging the Bank to better link its budgeting process to the broad strategic directions and key outcomes it expects to pursue in the medium and long term. It is important that the Bank target resources to support its priorities and that it find savings from activities that have become less relevant. The Bank has begun to move towards this goal, but further efforts will be needed.

Action: Work with IMF members to agree on a new sustainable and equitable income model for the Fund. Continue to support expenditure and staff reductions at the IMF with a focus on core institutional strengths and good financial governance. Work actively with the goal of concluding this exercise in 2008.

Timeline: 2008

Action: Advocate for a full review of the IBRD's long-term financial health, with a view to understanding the outlook for capital adequacy and prospects for net income, and whether any changes need to be made to the Bank's income model.

Timeline: 2008

Action: Advocate for improvements in the Bank's budgeting process to help ensure that its budget serves as a tool to strategically align its resources with its current priorities, and to identify savings from activities that have become less relevant.

Timeline: 2008–2010

Priority 1.3: Transparency

Governance and operational transparency are a basic tenet of effective institutions. Through the efforts of Canada and other countries, the IMF and World Bank have become increasingly transparent institutions. Both institutions have now adopted a policy of presumed disclosure for most documents, unless there are clear confidentiality concerns. Both also have independent review groups that provide candid, independent, public reviews of Fund and Bank performance in different areas of their core operations. IMF and World Bank Governors hold the institutions' management responsible to respond to these reviews and address any identified shortcomings.

A further review of Bank and Fund transparency was conducted by One World Trust, a non-governmental organization based in the United Kingdom. Their 2006 Global Accountability Index assessed the transparency capabilities of 34 international organizations, and ranked the World Bank and IMF third and fourth respectively, ahead of other well-known non-governmental organizations such as Oxfam, World Vision and Amnesty International.

At the IMF, Canada has consistently championed greater transparency since the early 1990s. The result is a disclosure policy that balances the need for confidentiality in IMF advice to members against the increasing recognition of the importance of transparency for the IMF's legitimacy and effectiveness. For country documents—which include economic reports or loan documents—this means that countries are in general expected to consent to publication. Currently, about 85 per cent of Article IV surveillance reports are published, as are the overwhelming majority of policy papers and summaries of Executive Board discussions.

Similarly, the World Bank has made considerable progress toward greater transparency over the past decade. Under its 2002 information disclosure policy, the Bank makes an enormous amount of operational information available to the public. The Executive Board approved further improvements to the policy in 2005 and, today, nearly all World Bank documents ranging from Country Assistance Strategies and sector studies to project-related reports are disseminated.

The Bank also makes the Executive Board's forward work program, the minutes of its meetings and the Chairman's summaries available on its website, although transcripts of Board discussions are not made public (see text box below). The policy documents discussed during the IDA replenishment discussions and the Chairman's summaries are also available online.

The Bank continues to review the provisions and implementation of its disclosure policy on a regular basis, with the next review scheduled for 2008. Canada will continue to encourage the Bank to make as much information public as possible while respecting the need for some confidentiality to preserve the opportunity for frank discussion at the Executive Board and with client countries.

Restrictions on Disclosure of Executive Board Discussions at the IMF and World Bank

The IMF and World Bank have increasingly adopted disclosure policies based on the presumption that material should be disclosed whenever possible. This presumption of disclosure also applies to the workings of the institutions' Executive Boards. Reflecting this approach, considerable information is provided to the public concerning the decision-making processes of the Boards, including their work programs and agendas, as well as the overwhelming majority of country and policy documents submitted for consideration by Executive Directors. In many cases, a summary of Executive Board discussions and conclusions is also published.

The disclosure policies do not, however, allow disclosure of representations made by Executive Directors in their respective Executive Boards. This policy reflects in part the nature of the IMF and World Bank as financial institutions, providing advice and financing to members on matters that may require discussion of commercially confidential or market-sensitive information. Further, the IMF and World Bank provide forums for the debate of politically sensitive national policies, in a similar manner to the functioning of the Canadian Cabinet system. The effectiveness of the institutions often hinges on their ability to act as trusted advisors and provide a forum for frank debate on policy development. Canada supports this policy.

Looking for Targeted Improvements at the IMF

For the IMF, proactive transparency efforts regarding its loan conditionality, especially in low-income countries, needs to be improved. This was highlighted in the IEO report *An IEO Evaluation of Structural Conditionality in IMF-Supported Programs*, which focused on the impact of recent streamlining conditionality initiatives at the institution and the need for better communication of the goals and design of conditionality.

In Canada's view, better communication in IMF documents and outreach sessions about the nature of program conditions and their desired impact would have two beneficial results. First, it would ensure that conditionality is well rooted in the core goals of the country program. Second, it would provide interested parties with a better understanding of the reasoning behind various conditions that might otherwise appear poorly conceived.

Canada will continue to push for these measures at the IMF Executive Board. At the World Bank, progress on transparency and further opportunity for disclosure will be assessed as part of a planned review of its transparency policy in 2008.

Action: Encourage the IMF (through the Executive Board) to improve public understanding of its role in low-income countries and the nature of its conditionality using existing documents and communication channels.

Timeline: 2008–2010

2) Institutional Effectiveness

Consistent with Government of Canada core principles, a second major Canadian objective is to ensure that the BWIs are achieving demonstrated effectiveness in carrying out their mandates. This means tailoring their services to focus on what they are best at and what member countries want, being well coordinated with other international partners and exploring innovative new ways to reach their goals.

Priority 2.1: IMF Surveillance and Crisis Prevention

While Canada is encouraged by recent progress at the IMF in strengthening its surveillance role, more remains to be done on current initiatives, and there is room for greater innovation in other areas.

In 2008, we plan to monitor the Fund's progress in incorporating best practices into its Article IV reviews of member economies, with a view to providing a critical assessment of its success and suggesting areas for improvement. Canada will also contribute to the development of the triennial Statement of Surveillance Priorities (SSP), which is intended to provide clear direction on surveillance priorities and enhance IMF accountability for the focus and quality of its surveillance.

Operational priorities beyond 2008 will be developed in response to our experiences over the coming year. However, efforts to strengthen the IMF's key role in global surveillance will continue to be a priority. Canada will also support the Managing Director's vision for the IMF as the international institution with a comparative advantage in linking financial sector developments with the real economy. The global financial turmoil since mid-2007 demonstrates the importance of this link for effective surveillance.

Further, beyond traditional bilateral surveillance (e.g. Article IV reviews) and multilateral surveillance (e.g. the *World Economic Outlook* and *Global Financial Stability Report*), Canada believes the IMF can play an increasingly important role as a forum for discussions on addressing global imbalances and future challenges that may require concerted action by national governments. This would be a natural extension of the Fund's surveillance work and should lead to better policy making in member countries. While the IMF's first experience with bringing together key players for consultations on global imbalances in 2006 and 2007 was a limited success, the institution should learn from experience and build on its initial efforts.

Action: Analyze the impact of the 2007 Decision on Bilateral Surveillance on Fund surveillance outputs (Article IVs). Depending on the outcome, possibly push for more rigorous implementation of the revised policies.

Timeline: 2008

Action: Work to implement a Statement of Surveillance Priorities in conjunction with the Triennial Surveillance Review, ensuring sufficient input and buy-in from national capitals.

Timeline: 2008

Action: Work to improve the integration of the IMF's analysis of financial system developments in the *Global Financial Stability Report* with the assessment of trends in the real economy provided by the *World Economic Outlook*. Support Fund work to make this analysis more applicable to policy making in member countries.

Timeline: 2008–2010

Priority 2.2: Aid Effectiveness

Getting the best development outcome from our aid spending is a priority for the Government of Canada. In this regard, the federal budget for 2007 set out an ambitious agenda to improve the effectiveness of Canada's bilateral aid program. This emphasis on effectiveness also extends to our participation in multilateral initiatives.

Innovative Technical Assistance Delivery at the IMF

In FY2007, the IMF provided more than 438 person-years[17] of technical assistance, roughly three quarters of which was directed to low-income and lower-middle-income countries and roughly one-quarter of which was funded by donors. In recent years, the IMF has taken a number of steps to improve the management and delivery of its technical assistance to strengthen country ownership and to better align technical assistance priorities with its surveillance function.

Commensurate with Canada's view that the IMF must focus on its core mandate and comparative advantages when considering budget-cutting proposals, we believe the Fund must focus on areas of core competency in its technical assistance activities. Further, there must be a cost-effective, competency-based division of labour with the World Bank in all training efforts, such as is being achieved through the Caribbean Regional Technical Assistance Centre.

Improving the capacity of member countries to monitor, analyze and report on accurate and robust economic data sets is fundamental to promoting sound monetary and macroeconomic policies and enabling effective IMF surveillance.

In 2008, the Government of Canada will encourage the IMF to examine and implement innovative training solutions to address the need for increased technical capacity, including the introduction of needs- and means-tested, demand-driven programming. We will also continue to support a strong role for the BWIs in the global effort to monitor and provide technical assistance regarding national anti-money-laundering and counter-terrorist-financing regimes.

[17] One person-year equals 260 working days.

Improving Country-Level Effectiveness at the World Bank

For the World Bank, challenges remain on a number of fronts:

- **Harmonization and Alignment**: Over the last few years, many developing countries have seen aid become more fragmented, with a rapid increase in the number of donors and organizations offering assistance, but each providing smaller amounts and often earmarking for specific activities. This has created major problems in terms of coordination and an increased administrative burden, and is a significant barrier to effective development.

  In 2005, under the Paris Declaration on Aid Effectiveness, the international community agreed on a set of targets to increase harmonization among donors and align their programs to a single country-owned development strategy. Canada supports the steps the World Bank Group has taken in this regard, but we encourage it to accelerate efforts towards meeting the targets and fostering real partnerships with other donors and organizations. Within this theme of aid effectiveness and partnerships, the Bank should also make progress on fostering closer cooperation between its own agencies.

- **Measuring Results**: Canada applauds the Bank's strengthened focus on results (e.g. IDA's Results Measurement System, results-based CASs). However, it is clear that results cannot be properly measured and tracked without the collection of accurate, timely and useful statistics. We strongly support the efforts the Bank has made to help build statistical capacity in developing countries, and believe this work can be strengthened. Measuring for results will present an even greater challenge as the Bank moves into the area of global public goods.
- **Poverty and Social Impact Analysis**: Another aspect of delivering aid effectively is to properly understand how a proposed reform will affect all stakeholders. For the Bank, this analysis often comes in the form of Poverty and Social Impact Analyses (PSIAs), which evaluate the impact of policy reforms on the welfare of different stakeholder groups, with particular focus on the poor and vulnerable. However, some stakeholders have expressed concerns that the Bank has not been systematically conducting PSIAs and have questioned the quality of some of the analysis.

Action: Promote focused IMF technical assistance that is demand-driven and, more specifically, helps build macroeconomic and financial statistics capacity, and encourages sustainable debt management policies and public revenue regimes, and effective capital market regulation.

Timeline: 2008

Action: Encourage the Bank to rationalize the Trust Funds under Bank management and ensure that they are strategically aligned with broader Bank priorities and initiatives.

Timeline: 2008

Action: Advocate that the Bank foster real partnerships with other donors and organizations, such as the UN and the IMF, to ensure that efforts are coordinated on the basis of a single country-owned development strategy.

Timeline: 2008–2010

Action: Urge the Bank to accelerate its progress towards the Paris Declaration targets, including reduction of parallel implementation units, use of joint missions and analytical work, and related decentralization of staff and decision-making powers.

Timeline: 2008–2010

Action: Promote a closer IFC and IDA partnership to ensure the best use of resources to maximize the Bank's contribution to private sector development in the poorest countries.

Timeline: 2008–2010

Action: Encourage the Bank to devote adequate resources to helping its clients build the capacity to properly measure development results.

Timeline: 2008–2010

Action: Urge the Bank to ensure that the quality and systematic use of PMAs are sustained and strengthened. In particular, push the Bank to update its good practice note on PSIAs and post PSIAs on the external website for public comment.

Timeline: 2008–2010

Priority 2.3: Innovation for Private Sector Participation in Development

Canada has been a strong advocate at the Bank for innovative initiatives that harness the strengths of the private sector for development. We believe this is particularly important as the Bank explores its role in the provision of global public goods. The magnitude of the financial and technical challenge that many of these issues present is beyond the scope of what governments can provide on their own, and we cannot expect to succeed unless this challenge is also taken up in the marketplace.

Canada has been working closely with the Bank in this area. In particular, the Advance Market Commitment (AMC) initiative is designed to mobilize private sector investment to develop a safe and affordable vaccine for pneumococcal disease. We believe the time is ripe for donors to consider how the AMC model or other innovative mechanisms might be used to tackle insufficient investment in the development of other global public goods, such as clean energy technologies.

Similarly, the Caribbean Catastrophe Risk Insurance Facility, the world's first regional disaster insurance facility, is a truly innovative initiative, bringing private sector skills, expertise and institutions to work alongside Caribbean governments and development partners. We encourage the Bank and other international partners to consider the merits of expanding it or linking it with other similar initiatives

The IFC is the key multilateral actor in promoting private sector development in developing countries. Canada has been encouraging the IFC to accelerate its engagement in frontier countries (i.e. least developed and other high-risk countries). Looking ahead, we will also engage with other donors and IFC staff to identify measures to enhance the development value-added of IFC operations.

Action: Encourage the Bank to take a leadership role on innovative approaches to development finance by acting as a financial intermediary for the AMC for pneumococcal disease in a manner that maximizes the efficiency, simplicity and credibility of the initiative.

Timeline: 2008

Action: Assess the strengths and limits of the Caribbean Catastrophe Risk Insurance Facility and consider the merits of expanding it or linking it with other similar initiatives.

Timeline: 2008

Action: Push for consideration of the use of the AMC concept or other innovative tools to mobilize private sector investment to tackle global public goods.

Timeline: 2008–2010

Action: Continue to encourage the IFC to accelerate its engagement in frontier markets and to identify measures to enhance the development value-added of IFC operations.

Timeline: 2008–2010

3) Sustainable Poverty Reduction and Growth

The real benefits of sustained and equitable economic growth to poverty reduction and societal well-being cannot be overstated. Another main objective for Canada is to ensure that the poverty reduction, growth and macroeconomic stability that the IMF and World Bank help foster today will have lasting results in the long run.

For both institutions, this will include encouraging developing countries to maintain sustainable debt positions and helping failed and fragile states onto a sustainable path of recovery. In addition, broad poverty reduction cannot be achieved unless growth is equitable, including the economic empowerment of women. Finally, both institutions have a role in helping countries consider environmental issues more fully in their development planning.

Priority 3.1: Debt Sustainability

Canada is strongly committed to reducing the debt burdens of the most heavily indebted poor countries to sustainable levels. We have been very active in the development and financing of the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative, which have helped recipient countries redirect freed-up resources to poverty reduction initiatives.

Under these initiatives, the G7, IMF and World Bank have all provided significant debt relief. Canada has been at the forefront by cancelling roughly $1 billion in debts owed to Canada by HIPCs since 2000. We have provided a further $509.8 million to the IMF, World Bank and African Development Fund since 1998 to compensate for the debts these institutions have cancelled. Canada will provide these institutions with a total of $2.5 billion over the next 40 years for debt relief.

Canada believes that it is critical to ensure that this debt relief puts countries back onto a path of sustainable, long-term financial management and to prevent a return to the "lend-and-forgive" cycles of the past. We will continue to find opportunities to support efforts at the IMF and World Bank to help developing countries avoid unsustainable borrowing and to encourage creditor countries to lend in a way that is consistent with borrowing countries' development plans and capacity to repay.

The IMF and World Bank have a significant role to play in these efforts, including through the development of the Debt Sustainability Framework to better monitor and prevent the reaccumulation of unsustainable debt, the Debtor Reporting System to collect debt data to improve the transparency of lending and borrowing activities, and the Non-Concessional Borrowing Policy to create the proper incentives for countries to borrow on concessional terms and ensure that debt sustainability is maintained. However, given that many countries are still at a high risk of debt distress and are reaccumulating unsustainable levels of debt, we see scope to further strengthen these tools. In particular, the IMF and World Bank must receive full disclosure from creditor and borrower countries on lending and borrowing activities to enable a robust reconciliation of data.

> **Action:** Continue to monitor whether the Debt Sustainability Framework is effectively changing borrowing/lending behaviour to prevent the reaccumulation of unsustainable debt levels and assess whether improvements might be needed.
>
> Timeline: 2008–2010
>
> **Action:** Push for the BWIs to consider both non-concessional and concessional lending when assessing the appropriate level of debt reaccumulation post debt relief.
>
> Timeline: 2008–2010
>
> **Action:** Continue to improve the transparency of lending and borrowing data, and help to build debt management capacity in low-income countries.
>
> Timeline: 2008–2010

Priority 3.2: Failed and Fragile States

Successfully reintegrating failed and fragile states into the global economy represents another major challenge. Over 14 per cent of the world's population, or 870 million people, live in fragile states, and it is estimated that they represent: 35 per cent of people living in absolute poverty; 46 per cent of the total number of children not receiving a primary education; and 51 per cent of the children who die before age 5 each year. Moreover, in the future, poverty is expected to become increasingly concentrated in these states. Canada has therefore been advocating for stronger multilateral support for these countries, as well as enhancing our own bilateral programs.

The IMF's core role in failed and fragile states is to aid national authorities in re-establishing macroeconomic stability and growth in the country. Canada supports the IMF's role in countries such as Afghanistan, Haiti and Lebanon, and will continue to encourage the IMF to focus on its core areas of expertise and adapt its policy advice and intervention methods to respect country-specific situations, while coordinating closely with the World Bank and other relevant organizations.

The World Bank is very active in this area, with IDA having provided US$16 billion (19 per cent of its resources) over the last decade to fragile states. The Bank has also set up two large funds, the Post-Conflict Fund and the Low-Income Countries Under Stress Trust Fund, to provide a quick response and flexible funding mechanism. In addition, the Bank administers a number of Multi-Donor Trust Funds to mobilize additional donor financing for specific countries. Canada has contributed a total of $466 million to the Afghanistan Reconstruction Trust Fund and $40 million to the Sudan Multi-Donor Trust Funds at the World Bank and provides considerable assistance to a number of fragile states through our bilateral aid programs.

Afghanistan

Canada is part of a community of more than 60 nations and organizations that have committed to helping the Afghan people recover from decades of turmoil and upheaval. Canada has pledged substantial funding in support of these reconstruction and development efforts, making us one of the world's top donors to the country, and making Afghanistan our largest bilateral aid recipient.

As part of these efforts, Canada collaborates extensively with the World Bank. In particular, Canada, through the Canadian International Development Agency (CIDA), is a major participant in the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF), having contributed $466 million to date and participating on the ARTF's donor committee, which is regularly convened in Kabul. CIDA financing for the ARTF has been targeted to several national priority programs, including:

- **The Recurrent Cost Window:** Supports the Government of Afghanistan in its efforts to re-establish a fully functioning and representative government system. It reimburses a portion of the Afghan government's day-to-day operating expenses, including wages for government employees, thereby helping to maintain and expand the delivery of basic services, such as health and education, to its citizens.
- **The National Solidarity Program:** The Afghan government's primary program for community development, aiming to reduce poverty by empowering communities to take initiative, improve local governance and increase social, human and economic capital.
- **The Microfinance Investment Support Facility for Afghanistan:** Supports local microfinance institutions that, in turn, provide small loans and financial services to poor Afghans.
- **The Education Quality Improvement Project:** Helps increase access, quality and gender equality in Afghanistan's education sector.

Canada was one of the donor countries pushing for fragile states to be a key theme for the IDA15 replenishment discussions, and we are pleased that a number of important enhancements were agreed to for IDA's engagement in these countries, including an increase in the level and duration of special allocations to post-conflict countries and a framework to clear the arrears owed to IDA and the IBRD by heavily indebted countries (like Liberia and Sudan), so that they can again benefit from IDA's support as they emerge from conflict. We will be actively monitoring these enhancements in order to help ensure that they are meeting the needs of these states, and are working to put them on a sustainable path for the future.

It is also important to note that the UN plays a very critical role in conflict-affected countries, often leading efforts where government capacity is non-existent or severely constrained. In this respect, the Bank and the UN have recognized a need to improve their coordination and clarify their respective roles in these countries. They are currently working towards a partnership agreement, and we urge them to ensure that these efforts translate into concrete improvements at the ground level.

Action: Through the Executive Board, continue to support greater focus of IMF engagement in fragile states (i.e. policy support for obtaining macroeconomic stability and facilitating arrears clearance where appropriate).

Timeline: 2008–2010

Action: Monitor whether IDA's new framework for arrears clearance operations preserves incentives for countries to complete reforms under the HIPC process after arrears clearance and determine whether improvements are needed.

Timeline: 2008–2010

Action: Monitor the enhancements to IDA's exceptional financing for post-conflict countries, as agreed in IDA15, to see that they provide enough financing to help post-conflict countries make development gains, and that the transition back to regular financing does not endanger their progress.

Timeline: 2008–2010

Action: Monitor the concrete steps taken by the Bank to improve its coordination with the UN in fragile states.

Timeline: 2008–2010

Priority 3.3: Gender

As a partner in the achievement of the Millennium Development Goals, the World Bank can and needs to play a critical role in supporting gender equality and women's empowerment. Canada has been a strong supporter of the Bank developing a Gender Action Plan, which seeks to integrate gender equality into its broader activities, and we welcomed its launch in September 2006. To underscore the importance of this work, Canada contributed $1.5 million to support the Action Plan and accepted to be a member of the World Bank-sponsored Advisory Council for Women's Economic Empowerment. Canada strongly encourages the Bank to devote the resources necessary to ensure full implementation and accountability for its commitments.

Canada believes that the World Bank could improve its performance in achieving and reporting on gender equality results. In this context, Canada will urge the Bank to effect changes to the operations manual to mandate the full integration of gender equality objectives into Country Assistance Strategies and results reporting at the country level, including evaluation reports. In addition, Canada will encourage the Bank to allocate adequate resources to ensure every country program has an assigned gender equality specialist.

Finally, progress on gender equality outcomes at the country level cannot be monitored and gaps cannot be properly identified without proper statistics. In this regard, during the IDA15 discussions, Canada pushed for IDA to commit to collect gender-disaggregated statistics, and we were pleased that IDA agreed to work towards this goal. We hope to see real progress both in terms of tracking gender outcomes and reporting on them.

Action: Encourage the World Bank to update its operations manual to mandate the full integration of gender equality objectives into Country Assistance Strategies, results reporting and evaluations at the country level.

Timeline: 2008–2010

Action: Urge the World Bank to allocate sufficient budget resources to assign a gender equality specialist to each country program.

Timeline: 2008–2010

Action: Push the World Bank to collect and analyze gender-disaggregated statistics at the country level to properly track progress and report back on gender equality and use these statistics to improve policies and programs for the future.

Timeline: 2008–2010

Priority 3.4: Environment

Sustainable growth cannot be achieved without significant progress in addressing the world's environmental challenges. In many developing countries, the costs of environmental degradation have been estimated at 4 to 8 per cent of GDP annually. Natural resource degradation—depleted soils, insufficient water supply, rapidly disappearing forests, collapsed fisheries—threatens the health of millions of people. Pollution, too, continues to present a major health threat; an estimated 6 million people die annually, and many more get sick, in developing countries from water-related diseases, indoor air pollution, urban air pollution and exposure to toxic chemicals.

The IMF recently announced that it will undertake research to assess the fiscal aspects of climate change mitigation measures, including developing the appropriate public finance responses, evaluating some of the economic issues involved in choosing mitigation policies, and determining the impact of climate change policies on the IMF's core functions. The October 2007 *World Economic Outlook* briefly outlined elements of climate change and their potential economic impact, including:

- Negative impacts on output and productivity from long-term temperature change.
- Costs arising from efforts to mitigate carbon emissions.
- Costs from sea-level rise and increased severity of flooding.

Canada will support the IMF's efforts to increase analytical capacity concerning the impacts of climate change on national economies, in coordination with the World Bank, with a view to assessing appropriate policy responses.

The World Bank has had an Environment Strategy in place since 2001 to guide its work to help client countries identify and address their environmental challenges. World Bank policies also require environmental assessments to ensure that its projects and programs integrate principles of environmental sustainability. More recently, some of the Bank's members have been encouraging a move towards a stronger role in relation to climate change. At the 2005 G8 Summit in Gleneagles, Canada, along with other G8 countries, called on the World Bank to develop an investment framework for clean energy and sustainable development in developing and emerging markets. Canada is supportive of the resulting Clean Energy Investment Framework and we believe it provides a useful approach to address the interconnected areas of energy access, mitigation and adaptation.

The World Bank is currently exploring new tools for clean energy and climate change, including potential new financing mechanisms. While we are supportive of this effort, we believe that any new mechanism should complement or enhance existing initiatives, and promote future participation by developing countries in international agreements to reduce greenhouse gas emissions. In addition, as mentioned above, we encourage the Bank to consider how the AMC or other innovative financing approaches can be used to encourage clean energy technology development.

Action: Support IMF efforts to increase analytical capacity concerning the impacts of climate change on national economies (e.g. fiscal implications) in coordination with the World Bank.

Timeline: 2008

Action: Support the Bank's adoption of new tools for clean energy and climate change-related actions that complement or enhance existing initiatives.

Timeline: 2008–2010

Summary of Canada's Medium-Term Priorities at the Bretton Woods Institutions

1) Governance and Accountability

Priority	Short-Term Action (2008)	Medium-Term Action (2008–2010)
1.1 Governance Reforms Enhance the legitimacy of the BWIs through a more representative governance structure.	Support discussions across the membership and play a bridging role on a new IMF quota formula, ad hoc quota increase and basic votes increase.	Support the development of a reform package at the World Bank that enhances the voice of developing country members through an appropriate mix of reforms to voting, shareholding and other institutional processes, while preserving the Bank's ability to borrow at the lowest possible interest rates.
1.2 Sound Finances Sustainable income/expenditure models for the IMF and World Bank that support effective and efficient institutions.	Work with IMF members to agree on a new sustainable and equitable income model for the Fund. Continue to support expenditure and staff reductions at the IMF with a focus on core institutional strengths and good financial governance. Work actively with the goal of concluding this exercise in 2008. Advocate for a full review of the IBRD's long-term financial health, with a view to understanding the outlook for capital adequacy and prospects for net income, and whether any changes need to be made to the Bank's income model.	Advocate for improvements in the Bank's budgeting process to help ensure that its budget serves as a tool to strategically align its resources with its current priorities, and to identify savings from activities that have become less relevant.
1.3 Transparency Build on real past progress on institutional transparency.		Encourage the IMF (through the Executive Board) to improve public understanding of its role in low-income countries and the nature of its conditionality using existing documents and communication channels.

2) Institutional Effectiveness

Priority	Short-Term Action (2008)	Medium-Term Action (2008–2010)
2.1 IMF Surveillance and Crisis Prevention Support progress on implementing recent surveillance reforms to increase effectiveness, even-handedness and candour.	Analyze the impact of 2007 Decision on Bilateral Surveillance on Fund surveillance outputs (Article IVs). Depending on the outcome, possibly rigorous implementation of the revised policies. Work to implement a Statement of Surveillance Priorities in conjunction with the Triennial Surveillance Review, ensuring sufficient input and buy-in from national capitals.	Work to improve the integration of the IMF's analysis of financial system developments in the *Global Financial Stability Report* with the assessment of trends in the real economy provided by the *World Economic Outlook*. Support Fund work to make this analysis more applicable to policy making in member countries.
2.2 Aid Effectiveness Get the most development impact from IMF and World Bank resources.	Promote focused IMF technical assistance that is demand-driven and, more specifically, helps build macroeconomic and financial statistics capacity, and encourages sustainable debt management policies and public revenue regimes, and effective capital market regulation. Encourage the Bank to rationalize the Trust Funds under Bank management and ensure that they are strategically aligned with broader Bank priorities and initiatives.	Advocate that the Bank foster real partnerships with other donors and organizations, such as the UN and the IMF, to ensure that efforts are coordinated on the basis of a single country-owned development strategy Urge the Bank to accelerate its progress towards the Paris Declaration targets, including reduction of parallel implementation units, use of joint missions and analytical work, and related decentralization of staff and decision-making powers. Promote a closer IFC and IDA partnership to ensure the best use of resources to maximize the Bank's contribution to private sector development in the poorest countries Encourage the Bank to devote adequate resources to helping its clients build the capacity to properly measure development results. Urge the Bank to ensure that the quality and systematic use of Poverty and Social Impact Analyses (PSIAs) are sustained and strengthened. In particular, push the Bank to update its good practice note on PSIAs and post PSIAs on the external website for public comment.
2.3 Innovation for Private Sector Participation in Development Continue to support innovative new ways to promote private sector participation.	Encourage the Bank to take a leadership role on innovative approaches to development finance by acting as a financial intermediary for the AMC for pneumococcal disease in a manner that maximizes the efficiency, simplicity and credibility of the initiative. Assess the strengths and limits of the Caribbean Catastrophe Risk Insurance Facility and consider the merits of expanding it or linking it with other similar initiatives.	Push for consideration of the use of the AMC concept or other innovative tools to mobilize private sector investment to tackle global public goods. Continue to encourage the IFC to accelerate its engagement in frontier markets and to identify measures to enhance the development value-added of IFC operations

3) Sustainable Poverty Reduction and Growth

Priority	Short-Term Action (2008)	Medium-Term Action (2008–2010)
3.1 Debt Sustainability Avoid another lend-and-forgive cycle.		Continue to monitor whether the Debt Sustainability Framework is effectively changing borrowing/lending behaviour to prevent the reaccumulation of unsustainable debt levels and assess whether improvements might be needed. Push for BWIs to consider both non-concessional and concessional lending when assessing the appropriate level of debt reaccumulation post debt relief. Continue to improve the transparency of lending and borrowing data, and help to build debt management capacity in low-income countries.
3.2 Failed and Fragile States Better tools for assisting fragile states.		Through the Executive Board, continue to support greater focus of IMF engagement in fragile states (i.e. policy support for obtaining macroeconomic stability and facilitating arrears clearance where appropriate). Monitor whether IDA's new framework for arrears clearance operations preserves incentives for countries to complete reforms under the HIPC process after arrears clearance and determine whether improvements are needed. Monitor the enhancements to IDA's exceptional financing for post-conflict countries, as agreed in IDA15, to see that they provide enough financing to help post-conflict countries make development gains, and that the transition back to regular financing does not endanger their progress. Monitor the concrete steps taken by the Bank to improve its coordination with the UN in fragile states.
3.3 Gender A real mainstreaming of gender considerations across operations.		Encourage the World Bank to update its operations manual to mandate the full integration of gender equality objectives into Country Assistance Strategies, results reporting and evaluations at the country level. Urge the World Bank to allocate sufficient budget resources to assign a gender equality specialist to each country program. Push the World Bank to collect and analyze gender-disaggregated statistics at the country level to properly track progress and report back on gender equality and use these statistics to improve policies and programs for the future.
3.4 Environment Linking development and environment in a manner that is consistent with BWI core mandates.	Support IMF efforts to increase analytical capacity concerning the impacts of climate change on national economies (e.g. fiscal implications) in coordination with the World Bank.	Support the Bank's adoption of new tools for clean energy and climate change-related actions that complement or enhance existing initiatives.

Annex 1

Canadian Statements at the International Monetary and Financial Committee of the Board of Governors for the IMF

The Honourable Jim Flaherty, Minister of Finance for Canada

on behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines

Washington, DC
April 14, 2007

The dominant issue at our meeting today is how to meet the target that we set in Singapore to reach agreement on an ambitious package of International Monetary Fund (IMF) reforms by the fall of this year. The deadline is short, but this provides a strong incentive to move ahead quickly. In doing so, it will be important that we do not lose sight of the rationale underlying this reform exercise—improve the Fund's legitimacy and effectiveness through a broad package of reform measures. This package should include IMF governance arrangements that better reflect the evolving economic weights of members, effective surveillance of members and the global economy, and a better set of tools for the prevention and resolution of financial crises. With these reforms, the Fund will be better able to respond to the challenges of economic and financial globalization, and remain a credible and effective guardian of a stable, market-based international financial and monetary system.

Global Prospects

We are encouraged that the outlook for the global economy remains positive, with the IMF projecting global growth of around 5 per cent in 2007 and 2008. Over the past year, growth has become more balanced, with Europe experiencing its strongest growth in six years in 2006 and the recovery in Japan gathering momentum. Combined with a moderation of growth in the United States, these growth patterns are favourable to unwinding global imbalances. Global economic fundamentals remain very strong, despite some recent turbulence in equity markets. The major world economies share many characteristics: strong growth, relatively low inflation, improving public finances, rising asset prices and low risk premia. However, there are risks to this outlook. As output gaps continue to narrow, there is a risk of rising inflation. Commodity prices are expected to remain at elevated levels, or perhaps increase further, a development that would be unlikely to contribute substantially to dampening inflationary pressures. In recent years, the economic and financial system has coped well with shocks, and we expect this to continue for the foreseeable future. But we must continue to work together to ensure that this remains the case.

Although the rebalancing of global growth is supportive of the unwinding of global imbalances over time, the size and persistence of these imbalances continue to pose a risk. In a global economy that is increasingly integrated, no country is fully isolated from disturbances in another. Therefore, it is clear that if we judge there to be risks of a disorderly adjustment, we must all play a role in helping ensure that these imbalances are unwound in an orderly fashion. As well, the Fund has a key role to play in this debate given its mandate to promote international monetary cooperation, and members must continue to support the Fund's multilateral surveillance efforts to this end.

Canadian Developments

Canada's economy continues to operate at a high level of activity after a few years of robust growth. Final domestic demand remains strong and continues to be the main driver of growth. Canadian real gross domestic product (GDP) growth slowed moderately recently, given weaker U.S. demand, the past appreciation of the Canadian dollar and a cooling of the Canadian housing market. In 2006, real GDP increased 2.7 per cent—down slightly from a year earlier—while final domestic demand grew 4.5 per cent on solid support from non-residential investment and consumer spending. Total consumer price inflation has been volatile in recent months, largely due to energy prices. However, well-anchored expectations have helped keep core consumer price inflation relatively stable and near the Bank of Canada's 2-per-cent inflation target. Solid personal income gains, very strong job growth and still-low interest rates, coupled with Canada's strong monetary and fiscal fundamentals, should support the Canadian economy through 2007, with growth accelerating towards 3 per cent in 2008.

Canada's fiscal situation remains solid. According to the Organisation for Economic Co-operation and Development (OECD), on a total government basis, Canada was the only Group of Seven (G7) country in surplus in 2006 and will likely be the only G7 country to remain in surplus in 2007 and 2008. Total government net debt, as a percentage of GDP, has also declined steadily from a peak of nearly 71 per cent in 1995 to about 27 per cent in 2006. Canada has had the lowest total government net debt-to-GDP ratio of any G7 country since 2004, and we expect this to remain the case. To strengthen Canada's ability to deal with economic shocks and challenges such as population aging, the Government aims—and is on track—to eliminate Canada's total government net debt by 2021 at the latest. By doing so, Canada will be able to count itself among the very few OECD countries that are in a net asset position.

Irish and Caribbean Developments

Let me now turn to developments in Ireland and the Caribbean countries I represent.

The Irish economy recorded another very successful year in 2006. Real GDP grew by 6 per cent, somewhat ahead of potential, and only a slight slowdown is expected in 2007. With unemployment steady at around 4 per cent, there is effectively full employment and the economy continues to attract substantial inward migration. Growth in 2006 was heavily focused on the building and construction sectors as the economy continues to close the large deficit in infrastructure and housing. The strength of domestic demand and the relative weakness of the export sector resulted in a current external deficit of more than 3 per cent of GDP.

The strength of the economy and higher energy prices contributed to an increase in the rate of inflation. The harmonized index of consumer prices (HICP) rose by 2.75 per cent on average in 2006. The inflation differential over other Monetary Union countries widened somewhat. The European Central Bank tightened monetary policy through the course of 2006, and a moderation in the HICP to 2.5 per cent is expected in 2007. The strength of domestic demand, and especially the housing sector, contributed to a very strong fiscal outturn. Buoyant revenue led to an unexpectedly large surplus of 2.3 per cent of GDP and a fall in the debt-to-GDP ratio to 25 per cent. For 2007, a surplus of 1.2 per cent of GDP is budgeted. Within the budget, there is a continuing major emphasis on infrastructural investment to ease bottlenecks and boost the productive capacity of the economy.

In 2006, the Caribbean countries I represent experienced another year of economic expansion. Growth was robust, underpinned by the rebound in the tourism and agricultural sectors, as well as stimulus from activities related to the Cricket World Cup 2007 and continued strong foreign direct investment flows. Inflation was moderate, in spite of high oil prices and robust growth.

On the fiscal side, strong growth in revenue resulted in higher primary surpluses in a number of countries. However, the debt overhang remains a major challenge for many countries.

Progress has been made in deepening and advancing the regional integration process with the implementation of the Caribbean Single Market component of the Caribbean Single Market and Economy (CSME). Agreements have also been reached on contributions for the Regional Development Fund, which will provide assistance to those disadvantaged by the operations of the CSME. The Fund should be fully operational by July 2007. We encourage the international donor community to support this crucial integration effort.

Caribbean countries are extremely vulnerable to natural disasters. This has led Caribbean governments to seek assistance to access affordable catastrophic risk insurance. Thanks to the response of the World Bank and with the support from several donors, including Canada (the largest donor), the Caribbean Catastrophe Risk Insurance Facility, the first ever multi-country catastrophic insurance vehicle, is now a reality. We also believe this innovation can be expanded to small developing states in other regions of the world.

IMF Reform

In September 2006, I concluded my statement to the International Monetary and Financial Committee by emphasizing the need for a more comprehensive IMF reform package that goes beyond quota reform and addresses a broader agenda, including Fund surveillance, the institution's role in crisis prevention and resolution, and the Fund's financing sources. Fully implemented, this package of measures will enhance the Fund's capacity to safeguard global financial stability.

This statement still holds true today. We accomplished a great deal in Singapore, but we must work together to accomplish more. The Managing Director's Medium-Term Strategy has identified a number of priority areas for reform. Today, I would like to focus on four of these issues.

Quota and Voice Reforms

Successful governance reform is critical to enhancing the IMF's legitimacy in the eyes of its member countries. This requires significant progress in better realigning quota shares with the economic weight of member countries in the global economy. It also means that quotas and voting shares need to be responsive to changes in the global economy. I believe a successful quota reform exercise should have the following elements:

- A new quota formula that is simple, transparent and principles-based, and is aligned with the purposes and mandate of the IMF to promote growth and support the orderly integration of members into the global economy. The formula should be robust to future changes in the global economy so that the relative shares of dynamic economies continue to increase.
- A second round of quota increases that results in higher shares for the most dynamic economies, which can be found in all major regions of the world. To the maximum extent possible, major industrial countries should forgo potential quota increases in this round in order to maximize the realignment of relative quota weights.

Enhancing the participation and voice of low-income countries in the IMF is another important element of the reform package. I am encouraged that the Fund is making headway on developing the mechanism for increasing and protecting the level of basic votes, as well as studying ways to strengthen the effectiveness of small and low-income member participation in Executive Board discussions.

It should be noted that a new quota formula and subsequent quota realignment are not ends in themselves. They are means to an end. Agreement on quotas that are more representative of the global economy will enhance the Fund's legitimacy and the persuasiveness of its policy advice. To get that agreement, however, Fund members will have to demonstrate flexibility. Members must be prepared to rise above narrow self-interest in pursuit of an institution that can better deliver the global public good of a stable world economy. In short, quota and voice reforms must be principled and robust, and reinforce Fund legitimacy over the long term.

Surveillance Reforms

No less important to the IMF reform agenda is ensuring that the Fund has the tools and the appropriate governance structure to carry out candid, targeted and even-handed surveillance that is capable of identifying threats to external stability. More effective surveillance will improve the Fund's capacity to evaluate monetary, fiscal, financial sector and exchange rate policies that have the potential to adversely affect the international monetary system. It will also allow the Fund to engage in a constructive dialogue with members aimed at addressing risks to their prosperity and that of the global economy.

In this respect, reform of the framework that underpins Fund surveillance is an important issue that must be addressed. Over the past 30 years, significant differences have emerged between the 1977 Decision on Surveillance Over Exchange Rate Policies and current surveillance practices. This divergence has made it increasingly difficult to guide surveillance activities and to hold the Fund accountable. To update and improve the Fund's surveillance activities, progress is necessary in two key areas:

- First, we need to revise the 1977 Decision on Exchange Rates to put more emphasis on members' domestic policies as well as give the Fund the ability to better identify domestic macroeconomic and exchange rate policies that cause negative spillover effects. This will also reinforce the principle that surveillance should be applied to all members in a uniform and even-handed fashion.
- Second, we should also move quickly to introduce a surveillance remit, under which policy-makers could identify surveillance priorities and instruct the Fund to pursue them. This would both increase the flexibility of surveillance and improve the Fund's accountability. In doing this, we can increase support for the tough and often coordinated actions needed to promote international monetary stability and orderly adjustment of imbalances.

It is also important that these changes can be made without introducing new obligations for members, or changing the Fund's emphasis on constructive dialogue and persuasion.

Securing a Stable Source of Financing for the IMF

A third element that is highlighted in the Medium-Term Strategy as key to the long-term viability of the Fund is changes to the institution's financing model to promote greater predictability of income. Financial conditions in emerging markets have improved considerably over the last five years, and affordable access to international capital has reduced many emerging market countries' reliance on Fund resources. Paradoxically, this has exposed the Fund to significant financial pressures, as it has traditionally funded the bulk of its operations from its lending operations. The recent decline of lending volumes combined with the early debt repayment by major borrowers has reduced Fund income to historically low levels. The IMF is facing an income shortfall and will run a budget deficit for fiscal year 2007, with rising deficits expected in subsequent years.

It will be important for Fund members to work together to identify a sustainable financing model that supports the lending, surveillance and technical cooperation roles of the Fund, while ensuring that the institution remains on a solid financial footing. To this end, I welcome the recent release of the report by the Committee of Eminent Persons on the sustainable financing of the Fund, commissioned by the Managing Director to assess this problem. The Committee's recommendations are balanced and innovative, and provide a sound basis for progress. I look forward to a constructive and open debate on the Fund's financing model, as well as how the Fund can further improve its operational efficiency given current budgetary constraints.

The Role of the Fund in Low-Income Countries, and Technical Assistance

Our low-income members face particular challenges in establishing macroeconomic stability, building efficient financial sectors, developing sound legal and business frameworks and crafting effective policies for particular key sectors. In a global economy where jurisdictions compete for scarce direct investment, it remains a preoccupation even for members that have attained middle-income or advanced industrial status.

In their efforts, these authorities will require the Fund's continued attention to prevent the re-accumulation of unsustainable debt, to accommodate aid flows, and to observe international standards and codes in public financial management, financial sector policy and data dissemination. The absence of timely and reliable economic and financial data can be an impediment to policy-making, as we have observed in the discussions toward a new quota formula.

In our constituency, our Caribbean authorities appreciate the Caribbean Regional Technical Assistance Centre's (CARTAC) help in improving public expenditure management, tax and customs policy and administration, and macro policy analysis. CARTAC has proven to be an efficient multi-donor program and a fine example of Paris Declaration principles in action; we encourage other donors to join the United Kingdom, the European Union, Ireland and Canada in this effort.

In the provision of technical assistance, it is key that the Bank and the Fund collaborate effectively with each other and with other bilateral and international agencies. I therefore welcome the recently released report to the Managing Director and the World Bank President by the External Review Committee on IMF–World Bank Collaboration.

Looking Forward

The overarching goal of the package of reforms under the Managing Director's Medium-Term Strategy is to ensure that the IMF remains a relevant, effective and representative institution in an era of large and open global capital markets and increasingly dynamic economies. Canada remains committed to an ambitious reform agenda. Quota and voice reforms are fundamental to improved governance, while policy reforms are critical to enhancing the Fund's role in surveillance and crisis prevention. I look forward to working with my colleagues to achieve a successful outcome in these important areas.

Washington, DC
October 20, 2007

On behalf of Canada, Ireland, and the Caribbean countries I represent in this Committee, I would like to extend my heartfelt appreciation to Managing Director de Rato at this, his last Annual Meeting. Through his leadership, including development of the International Monetary Fund's (IMF's) Medium-Term Strategy, Mr. de Rato has strengthened the Fund's capacity to fulfill its mandate of supporting a prosperous global economy.

I welcome the appointment of Mr. Dominique Strauss-Kahn as the new Managing Director. He brings to the IMF a wealth of experience and a strong vision for the Fund. I also welcome the appointment of Mr. Tommaso Padoa-Schioppa as the new Chairman of the International Monetary and Financial Committee (IMFC). I look forward to the new ideas and perspectives from both of these appointees, which will enable further progress to be made on the important challenges facing this institution.

We meet amidst reminders of these challenges, owing to the heightened uncertainty associated with the financial market turbulence that began this summer. Despite this increased uncertainty, I draw confidence that our institutions stand at the ready to support well-functioning markets. Central banks around the world are to be commended for their effective response to the sudden liquidity squeeze that hit short-term capital markets. Moreover, given the sound fundamentals supporting the global economy, I expect that the global economy will continue to register strong growth.

Nevertheless, the resilience of the global economy and financial system is clearly being put to the test by current developments. The challenge facing policy-makers is to carefully examine the root causes of the current financial volatility and draw the appropriate lessons for policy responses at the national and international levels. The rapid transmission of distress in the relatively small U.S. subprime mortgage market to global financial markets testifies to our global interdependence and our need for effective international institutions. In this regard, we must be doubly committed to reaching agreement on and implementing reforms to the IMF, including a realignment of quota that better reflects the evolving economic weights of members. Reform will strengthen the Fund, ensure its continued relevance, and allow it to effectively respond to new challenges in our global economic system.

Global Prospects

Since our last meeting, the global economy has been slightly weaker than anticipated, and the outlook has further clouded as a result of the turmoil in financial markets triggered by the collapse of the U.S. subprime mortgage market. The losses in that relatively small market quickly disseminated to global markets via the market for asset-backed securities, resulting in a global credit squeeze. Although quick action on the part of the Bank of Canada and other major central banks helped sustain market liquidity, certain market segments remain stressed, and the IMF anticipates a protracted period of adjustment. Nevertheless, the fundamentals of the global economy remain sound, and the IMF continues to project growth of around 5 per cent in 2007 and 2008.

To date, financial market turbulence has had the largest impact on the U.S. and Europe. Unlike past episodes of heightened uncertainty, the current adjustment in risk tolerance did not spark a wave of capital flight from emerging market economies. In part, this reflects the great strides made in Latin American and other emerging market economies in improving macroeconomic policies, which have increased investor confidence. Although the outlook for China and India has moderated owing to

lower external demand, their domestic economies remain at risk of overheating due to strong investment and capital inflows. The emerging economies are increasingly shifting from being primary beneficiaries of global growth to its major drivers.

The slowing of the U.S. economy and the associated depreciation of the U.S. dollar should help moderate the U.S. current account deficit and help unwind global imbalances. However, global imbalances remain significant, and continued progress is needed on implementing the recommendations that emerged from the multilateral consultations. Finally, although global inflationary pressures have eased, we must remain vigilant and committed to inflation control.

Canadian Developments

Canada's economy continues to operate at a high level of activity, owing to robust domestic demand. However, the tightening of credit conditions, the appreciation of the Canadian dollar to parity with its U.S. counterpart and the weakness in the U.S. housing market are expected to reduce Canadian exports and negatively affect growth. As a result, the IMF expects Canadian growth to ease to the 2.5-per-cent range in 2007 and 2008.

Final domestic demand remains strong and continues to be the main driver of growth. Canadian real gross domestic product (GDP) growth slowed moderately in 2006, given weaker U.S. demand, the past appreciation of the Canadian dollar and a cooling of the Canadian housing market. In 2006, real GDP increased 2.8 per cent—down slightly from a year earlier—while final domestic demand grew 4.7 per cent on solid support from non-residential investment and consumer spending. Solid personal income gains, very healthy job growth and still-low interest rates, coupled with Canada's strong monetary and fiscal fundamentals, are supporting the Canadian economy. In each of the first two quarters of 2007, growth exceeded 3 per cent at an annual rate.

Total consumer price inflation has been volatile over the last year, largely due to energy prices. However, well-anchored expectations have helped keep core consumer price inflation relatively stable and near the Bank of Canada's 2-per-cent inflation target.

Canada's fiscal situation remains solid. On a total government basis, Canada was the only Group of Seven (G7) country in surplus in 2006 and will likely be the only G7 country in surplus in 2007 and 2008. Total government net debt, as a percentage of GDP, has also declined steadily from a peak of nearly 71 per cent in 1995 to about 27 per cent in 2006. Canada has had the lowest total government net debt to GDP of any G7 country since 2004, and we expect this to remain the case. To strengthen Canada's ability to deal with economic shocks and challenges such as population aging, the Government aims—and is on track—to eliminate Canada's total government net debt by 2021, at the latest. By doing so, Canada will be able to count itself among the very few industrialized countries that are in a net asset position.

Irish and Caribbean Developments

Now let me turn to developments and policy directions in Ireland and the Caribbean countries. The performance of the Irish economy remains very strong, although the pace of expansion is likely to decelerate significantly over the period ahead. Real GDP grew by 5.7 per cent in 2006, with growth this year likely to be around 4.5 per cent and dipping to 3 per cent in 2008. While slowing, growth will remain strong by international standards. Apart from somewhat moderated international investment, the easing of growth reflects a fall-off in activity in the construction sector, which has been particularly buoyant in recent years. The less buoyant economy should contribute to an easing in inflation, which has tended to be somewhat faster than in partner monetary union countries.

The fiscal position remains strong. Exceptional revenue buoyancy in 2006 pushed the surplus close to 3 per cent of GDP, but a more normal pattern of a small surplus is in prospect for this year. On a net basis, the government debt ratio has fallen to only 12 per cent of GDP. With the economy slowing, employment growth will ease and migration flows will moderate, but there should be little change in the unemployment rate. While there are some downside risks, the overall prospect is for a fairly smooth transition from a period of exceptionally high growth to a still-strong but sustainable growth pattern.

The Caribbean countries that I represent continued to record robust economic activity in 2007, led by a strong recovery in tourism. Regional economic growth, which had fallen sharply with the decline in tourism in the wake of September 11, 2001, has rebounded strongly and inflation is moderate, despite high oil prices. Several countries took advantage of the favourable economic conditions to strengthen fiscal balances which, in combination with debt restructurings in some countries, has led to a modest decline in debt ratios. The region nonetheless remains vulnerable to exogenous shocks due to the still-high public debt levels and large current account deficits.

Regional integration continues to be an integral part of our Caribbean members' economic strategy, with implementation of the Caribbean Single Market and Economy scheduled for next year. The authorities of these small, open countries view the regional integration process as critical to helping them overcome some of the limitations imposed by size and compete more effectively in the global economy. While the timetable for the establishment of the Regional Development Fund has slipped, work continues apace on its full implementation.

The region is vulnerable to natural disasters, particularly hurricanes. The World Bank Caribbean Catastrophe Risk Insurance Facility (CCRIF) was established earlier this year as the first multi-country catastrophic insurance to help reduce the fiscal costs of hurricanes. The recent experience with Hurricane Dean has demonstrated, however, that the facility is far from a panacea. In fact, it underscores the need for continued self-insurance via continuing investment in disaster preparedness and mitigation efforts. There is also a need to build awareness and deepen understanding of the CCRIF.

IMF Reform

Significant progress has been made on the Medium-Term Strategy since our meetings in the spring. In particular, the adoption of the 2007 Decision on Bilateral Surveillance will improve the way surveillance is conducted, including assessing the potential for domestic policies to have spillover effects. I also note that the Executive Board agreed that a triennial Statement of Surveillance Priorities will help identify a focused, forward-looking set of priorities for surveillance. These are very promising developments, but our task is not yet finished. It is important that the Statement of Surveillance Priorities be accompanied by a strong accountability framework.

Quota and Voice Reforms

Agreement on a package of reforms to the structure of IMF quota and voting power is a key priority for Canada, Ireland, and the Caribbean members of my constituency. Progress in this area, aimed at better aligning IMF governance arrangements with developments in a rapidly changing global economy, is essential to strengthening the legitimacy of the IMF as a cooperative international monetary institution, and is the foundation for progress on the wide range of initiatives that comprise the IMF's Medium-Term Strategy.

Important progress has indeed been made in recent months. We all agree on the overall objectives of quota reform, which is to increase the voting share of developing countries (particularly dynamic economies) and to increase the voting share of Poverty Reduction and Growth Facility countries. We also agree on some elements of the quota formula, and there have been some innovative proposals aimed at reconciling the broad spectrum of interests across the Fund's membership. However, divisions remain on key issues, and we will need to redouble our efforts if an agreement is to be reached by the spring meetings.

Progress will require flexibility on the part of all members of the IMF. We ask all members to look beyond their short-term interests and work together toward agreement on a package of reforms that will keep the IMF as the institution at the centre of the international monetary system of the 21st century.

Surveillance Reforms

Surveillance over member exchange rate and economic policies is fundamental to the IMF's mandate and central to reforms under the Medium-Term Strategy. I welcome the progress since our last meeting in ensuring that the Fund has the tools and the appropriate governance structure to carry out candid, targeted and even-handed surveillance that is capable of identifying threats to external stability. This progress has been realized in two ways.

First, this June, the Executive Board adopted the 2007 Decision on Bilateral Surveillance, replacing the 30-year old 1977 Decision. The 2007 Decision puts more emphasis on members' domestic policies, as well as giving the Fund the ability to better identify domestic macroeconomic and exchange rate policies that lead to external instability. It also reinforces the principle that surveillance should be applied to all members in a uniform and even-handed fashion that promotes open, two-way dialogue. Despite some inevitable teething pains related to its implementation, the benefits of the new Decision are already apparent.

It is also important to note that, in the spirit of consensus, this reform was agreed to without introducing new obligations for members or changing the Fund's emphasis on constructive dialogue and persuasion. I look forward to the continued integration of the 2007 Decision into the Fund's daily work, as well as the regular review of progress in Fund efforts to focus on those priorities in an effective and even-handed manner.

The second area of progress took place in August, when the Executive Board came to consensus on the desirability of a triennial Statement of Surveillance Priorities. The Statement of Surveillance Priorities will work in conjunction with the Fund's triennial surveillance reviews to ensure that the right issues are focused on in a frank, fair and flexible manner in support of global economic and financial stability.

I am also pleased that many on the Executive Board supported the idea that the effectiveness of the Statement of Surveillance Priorities would be enhanced if it were endorsed by the IMFC. In my view, endorsement of surveillance priorities by the IMFC and ultimately by all Governors is key to ensuring widespread political buy-in and effective accountability for targeted, balanced and effective Fund surveillance, as well as support for the tough policy actions that are often needed to promote international monetary stability and orderly adjustment of imbalances.

Securing a Stable Source of Financing for the IMF

As we know, the Fund's traditional means of financing its operations has become increasingly unsustainable. In January, the Committee of Eminent Persons on the sustainable financing of the Fund (the Crockett Committee) released its report containing a range of possible financing options. Staff have begun to elaborate on these options, and I look forward to further analysis. At this time, I would encourage members to continue to keep all options on the table, as a package of measures will likely be required to successfully address the current situation.

I also commend Staff and Management for their ongoing efforts to identify efficiency-enhancing measures, improve the link between inputs and outputs in the budgeting process, and slow the growth in nominal administrative expenses. These efforts are timely, as they provide a basis to build on going forward. New income streams for the Fund should be advanced in parallel with substantial reductions in expenditure, including not only the search for further efficiencies, but also larger questions about how the Fund's outputs and priorities could be refocused in line with its comparative advantages and the evolving needs of its members.

The IMF's Role in Low-Income Countries

The Fund's low-income members face particular challenges in establishing macroeconomic stability, building efficient financial sectors, developing sound legal and business frameworks and investing in infrastructure. Those that have been the recipients of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative debt relief should use the fiscal space created by debt relief to accelerate economic growth and reduce poverty. This requires a commitment to restrain excessive external borrowing to avoid another run-up of unsustainable debt.

In their efforts, these authorities will require the well-coordinated assistance of the Fund, the Bank and the rest of the international community. I therefore welcome the recently approved Joint Management Action Plan to improve coordination and communication between the Staffs of the Fund and the Bank and the more focused role for the Fund in the Poverty Reduction Strategy process and low-income countries more generally. I also encourage all borrowers and lenders to participate fully in the HIPC debt relief process, and to respect the Low-Income Country Debt Sustainability Framework.

The authorities of our constituency extend their appreciation to the Caribbean Regional Technical Assistance Centre (CARTAC) for its help in improving macro policy analysis, public expenditure management, and tax and customs policy and administration. CARTAC has proven to be an efficient multi-donor program and a fine example of Paris Declaration principles in action; I would welcome other donors to join Canada, Ireland, the United Kingdom and the European Union in this effort.

Annex 2

Canadian Statements at the Development Committee of the Boards of Governors of the World Bank and IMF

The Honourable Jim Flaherty, Minister of Finance for Canada

on behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines

Washington, DC
April 15, 2007

Our discussions this weekend have a common theme: ensuring that the Bretton Woods institutions remain relevant and effective in an evolving global economy. Both the International Monetary Fund (IMF) and World Bank face situations in which many middle-income members that have traditionally relied on international financial institution financing are now increasingly able to access private markets. While this is a testament to the success of the development process, most of these countries continue to suffer from large and persistent pockets of poverty. The development issues associated with low-income countries, including fragile states such as Afghanistan and Haiti, also continue to pose challenges. And for all borrowing countries, there is a strong desire for a more effective voice to reinforce developing country ownership of World Bank lending programs and policy advice.

As discussion of IMF reform continues to gather steam, we need to constructively review the challenges facing the World Bank to ensure that it can continue to effectively and credibly fulfill its poverty reduction mandate. Recently, the Government of Canada announced a three-point program for enhancing the focus, efficiency and accountability to ensure the effective use of aid resources in our international assistance efforts. These principles are equally valid for international institutions.

1. Focusing on Areas of Comparative Advantage

Our first priority is strengthening focus. Shareholders are looking to the Bank to sharpen its priorities and improve the focus of its operations. This will require a candid assessment of the budgetary pressures and spending trade-offs as well as a stronger focus on results. The Bank's strategic vision must be aligned with its core competencies and comparative advantages. In this vein, we look forward to the Bank's forthcoming analysis on its long-term strategy to identify priority actions and internal capacity to promote global poverty reduction efforts over the next 10 years. We would stress that it will be critical for this exercise to take full stock of the Bank's two-pillar development strategy—improving the investment climate and empowering people—to ensure that it can successfully meet these new challenges and take advantage of new opportunities.

As recommended by the report of the United Nations Secretary-General's High-Level Panel on UN System-Wide Coherence, the Bank, IMF and UN must work more closely together to remove unnecessary duplication and build on their respective strengths. In this regard, there are two areas of comparative advantage where we see the Bank playing an increasingly important role.

Provision of Global Public Goods

While much of the Bank's work is undertaken at the country level, the institution also has a critical role to play in addressing issues that transcend national boundaries. In 2000, the Development Committee asked the Bank to focus on five broad priorities for global collective action: communicable diseases, economic governance and financial stability, the environmental commons, trade integration and the knowledge revolution. In our view, these issues are even more important today. Moreover, to the extent that the financing for public goods is critical for poverty reduction, there is even a larger role for the Bank.

Let me take this opportunity to also commend the Bank for several of its recent initiatives. In particular, we welcome:

- The recent launch of the innovative Advance Market Commitment (AMC) initiative for a pneumococcal vaccine, to which Canada contributed $115 million. The discovery of such a vaccine is expected to save more than 5 million lives in the developing world by 2030. Ireland will follow the progress of this initiative and participate as an observer in subsequent AMC discussions.
- The ongoing work of the Extractive Industries Transparency Initiative (EITI), to which Canada contributed $750,000 for this year. The EITI strengthens the transparency and accountability of resource-rich developing countries for the revenues received from foreign companies.
- The recent launch of the Caribbean Catastrophe Risk Insurance Facility Trust Fund, to which Canada contributed $20 million. The facility provides small Caribbean countries with risk insurance against natural disasters—insurance is not currently available from private markets.
- The Bank's Action Plan on the Clean Energy for Development Investment Framework, which addresses the issues of energy access, mitigation and climate change. Going forward, the Clean Energy Investment Framework will need to be mainstreamed into the Bank's work and anchored in its client-driven Country Assistance Strategies.
- The Bank's recent initiative to establish a Trust Fund for Statistical Capacity Building, to which Canada is contributing $6 million over the next three years. Improved statistical systems are essential for accountability, evidence-based policy development and the assessment of aid effectiveness.

Going forward, the Bank will need to clearly identify its areas of comparative advantage and adopt a collaborative approach in the provision of global public goods.

Promoting Gender Equality

The World Bank also needs to play a critical role in supporting women's economic empowerment. At our 2006 Spring Meeting, Canada strongly encouraged the Bank to fulfill its commitment to develop a gender action plan that is integrated into its broader activities. Canada commends the Bank for having launched its Gender Equality as Smart Economics Action Plan, which outlines the Bank's comparative advantages in and commitments to achieving the gender equality and women's empowerment Millennium Development Goal. To underscore the importance of this work, Canada has contributed C$1.5 million to support this plan. We strongly encourage the Bank to devote the resources necessary to ensure full implementation of the gender action plan.

2. Effective Aid for Differing Development Needs

Our second priority is improving efficiency. At the World Bank, this means providing aid that effectively addresses a spectrum of development needs. The 2005 Paris Declaration describes aid effectiveness in terms of a new partnership for development based on the principles of local ownership, alignment and harmonization, managing for results and mutual accountability. In addition to ownership, countries need the capacity to deliver their development agendas. The World Bank's report on Harmonization and Alignment for Greater Aid Effectiveness recognizes the importance of building strong institutional capacity and the important role that the Bank must play to achieve sustainable development results.

The Challenge of Africa

Now, more than ever, we have an opportunity to make real progress in Sub-Saharan Africa as governance reforms, higher commodity prices, increased aid flows and debt relief have significantly improved the region's economic outlook. To take advantage of this opportunity, we must carefully consider those areas where donors and the Bank can have the largest developmental impact.

A key area is improving debt management policies and enhancing debt sustainability. The Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives have provided the world's poorest and most indebted countries with an unprecedented opportunity to focus resources on poverty reduction. It is critical that we use this opportunity wisely and avoid the re-accumulation of unsustainable debt and another lend-and-forgive cycle.

Going forward, the Bank and IMF need to undertake a more rigorous analysis of mechanisms that can signal when a country's debt accumulation threatens to become unsustainable. This should involve transparent guidelines for borrowers and creditors, which encourage responsible financing practices and create incentives for the provision of more accurate and timely data to the World Bank's Debt Reporting System.

Investments in health and education are also key to ensuring that people can take advantage of stronger economic conditions. At the Annual Meetings in September, Canada joined the Netherlands, Norway, Sweden and the United Kingdom to release a statement in support of broad-based long-term predictable financing in education in order to realize the full potential of these investments. Canada is a strong supporter of the Education For All – Fast Track Initiative (EFA-FTI), which encourages donor and recipient countries to work in a spirit of partnership to achieve the education Millennium Development Goals. Last year, Canada announced a $25-million contribution to multilateral assistance through the EFA-FTI. This is in addition to the $240 million that Canada had earlier committed under its bilateral aid program in support of the EFA. We look forward to a successful meeting in Brussels in May.

Failed and Fragile States

Successfully reintegrating failed and fragile states into the global economy represents another major challenge. Almost 500 million people live in fragile states, with about half of these populations earning less than a dollar a day. Canada, Ireland and the Caribbean welcome the decision to include fragile states as a special theme in the IDA15 replenishment exercise. A key issue is how the International Development Association (IDA) can best help fragile states to strengthen their institutional capacity and improve their governance structures. Weak capacity and governance not only hinder development, but also limit aid allocations under IDA's Performance-Based Allocation System. We must give priority to early efforts to build capacity in post-conflict countries and, as a matter of prevention, other fragile states.

Analysis is also needed on possibly expanding the financial instruments IDA has available to meet the needs of fragile states, including both duration and eligibility for post-conflict allocations. A well-targeted and monitored capacity-building plan should be a central piece of the Bank's overall reform program and Country Assistance Strategies in post-conflict and other fragile states. Further, we strongly suggest close cooperation with the UN in setting the stage for international efforts in early recovery and medium-term reconstruction.

IBRD Partner Countries

We welcome the World Bank's recent evaluation of its role in International Bank for Reconstruction and Development (IBRD) partner countries. The Bank's engagement in these countries must be based on its comparative advantages and reinforce the institution's poverty reduction mandate. A key comparative advantage of both Bretton Woods institutions is the provision of technical assistance to strengthen both economic policy-making and institutional capacity. This is clearly the best way to ensure that conditionality is kept at a minimum, while improving investment climates and reducing income inequalities.

While more can be done to streamline lending operations in many IBRD partner countries, we would underscore the continued need to maintain strong project social and environmental safeguards. These strong standards are critical to ensure that the Bank's operations continue to have a strong developmental impact. It follows that the Bank needs to exercise caution that these standards are not eroded in countries, which have access to financing from private financial institutions.

Small States

Efforts to advance the development agenda cannot overlook the particular challenges facing small states, particularly in the Caribbean region. The Bank has an important role to play in assisting small states to position themselves for success in an increasingly globalizing world. There is a clear need for additional analytical work on options to promote competitiveness, diversification and increased trade. The continuing loss of critical skills in many small states as a result of migration also presents an important challenge. Support for human resource development is crucial as these countries expand services and other exports in which they have a comparative advantage. On the related issue of remittances, we encourage the Bank to continue to work with other international financial institutions and partner countries to better understand these arrangements and improve their effectiveness. To that end, we look forward to upcoming work by the World Bank on the Canada-Caribbean remittance corridor.

3. Enhancing Accountability Through Improved Governance

Our third priority is increasing accountability. At the World Bank, we aim to do this in a variety of ways, including through governance reforms. The World Bank and IMF have different mandates, and it is not necessary for governance reform at the two institutions to proceed in lockstep. However, there is a clear need to assess how best to enhance the voice of developing countries within both institutions. The discussion in the Bank should include consideration of how to improve transparency and accountability of selecting the President, the scope to increase staffing resources for African Executive Board constituencies, and how developing countries could be encouraged to take up their full IDA subscriptions. The institution also needs to review how best to attract qualified developing country candidates to senior management appointments. On this point, I would congratulate the Bank on its recent appointment of two dynamic African women as new Vice Presidents.

In moving ahead with governance reforms, the differences between the two Bretton Woods institutions also need to be respected. In particular, World Bank reforms must appreciate the Bank's capital structure and ensure the preservation of the IBRD's credit rating in international capital markets.

Conclusion: Ensuring a Strong Institution Going Forward

In closing, it is essential that the World Bank remain a strong and viable institution in a changing global economic environment. It has been almost a decade since the Bank's financial situation was reviewed by an independent committee in the wake of the Asian financial crisis. For my part, I believe that serious consideration could usefully be given to a new exercise that would review the implications of the growing access of many middle-income country members to international capital markets for the Bank's longer-term financial situation, as well as current proposals to consider more active risk management practices as a way to bolster its net income in the coming years.

Washington, DC, October 21, 2007

On behalf of my constituency, I would like to take this opportunity to welcome Robert Zoellick as the new President of the World Bank. He takes his post at an important juncture for the Bank. I am confident that the wealth of experience and knowledge that Mr. Zoellick brings to the job, and the clear commitment of Bank management and staff, will ensure that the Bank can effectively deliver on its development mandate.

Today, we focused much of our discussion on defining the future role of the World Bank. In our view, there are two aspects that must be addressed as we move forward in our discussions on a strategic direction for the Bank. First, shareholders and the Bank must work together to ensure an appropriately focused role. Second, the governance structure of the Bank must enhance its accountability and effectiveness. These efforts can only succeed if underpinned by strong financial stewardship, now and in the future.

A Focused Role for the World Bank

Important progress is already being achieved. In particular, we welcome President Zoellick's articulation of key priorities for the Bank going forward, underpinned by the thoughtful analysis in the Long-Term Strategic Exercise. Clearly, the opportunities and challenges the President has identified are important ones for the institution. However, the challenge remains to translate these broad priorities, as well as the Bank's detailed sector strategies, into an overarching vision for the World Bank Group. We urge the President to work closely with the Executive Board to ensure that the long-term strategy is finalized and implemented in a timely manner.

The Bank's strategic direction must be aligned with its core competencies and comparative advantages. On this, we would stress four key points:

- First, a challenge for the Bank going forward will be to implement its strategy in such a way that it has relevance at the country level. In particular, the Bank must strike a balance between its country-owned development strategy—which is absolutely critical for results on the ground—and the need to focus its support in areas where it has a comparative advantage. This will be particularly challenging as the Bank expands its role in global issues. For our part, shareholders need to recognize that the Bank has to be more selective in it efforts, focusing on the areas where it will have the greatest impact.
- Second, more needs to be done to ensure that donors coordinate efforts on the basis of a single country-led strategy. To this end, the Bank needs to continue to work on building partnerships with other donors and, particularly when it comes to fragile states, the UN system. This involves determining the best division of labour, and in this respect, the Bank should better define its strengths and weaknesses in relation to others. It is equally important that the institutions that make up the World Bank Group work together to support the overall objective of poverty reduction. In this vein, we are pleased with the US$1.75-billion transfer from the International Finance Corporation (IFC) to help the International Development Association (IDA) increase its efforts with regard to private sector development, as developing a strong private sector is the key to sustained growth.

- Third, the Bank needs to give further consideration to innovative ways to mobilize and leverage private sector investment. This is particularly important as the Bank explores its role in the provision of global public goods, including in the areas of health and climate change. The magnitude of the financial challenge these issues present is beyond the scope of what governments can provide on their own, and we cannot expect to succeed unless that challenge is also taken up in the marketplace.
- Finally, delivering results is paramount. The collection of accurate, timely, useful statistics is essential to gaining an accurate understanding of progress achieved and the challenges that remain. As national capacity to gather and assess statistics is critical to our efforts to monitor results, we must continue to support the Bank's Statistical Capacity Building Program. Measuring for results presents an even greater challenge in the context of global public goods.

We would also like to take this opportunity to commend the Bank for important work in several areas.

Fragile states: The Bank's work in fragile states reinforces the work of bilateral donors, such as Canada and Ireland, in a number of countries, including Afghanistan, Haiti and Sudan. Its support for fragile states aptly integrates emerging best practices, including the provision of longer-term financial assistance through IDA15. The prospect of renewed cooperation with the UN system, based on a clear division of labour, is a welcome step. Canada and Ireland are major supporters of the Afghanistan Reconstruction Trust Fund (ARTF), and we believe it is a model of "best practice" for structuring and managing trust funds in post-conflict situations. We share a need to ensure that the ARTF's strong development results are not only achieved, but also better communicated to Afghans and external stakeholders.

IDA: We recognize the International Development Association's unique role in creating an enabling environment, or platform, which supports the successful delivery of other bilateral and vertical programs. Canada, Ireland and the Caribbean strongly support the Bank in its work to help the poorest countries. We consider contributions to IDA to be money well spent. In this regard, we welcome the recent commitments by the IFC and the International Bank for Reconstruction and Development (IBRD) to transfer US$3.5 billion to IDA15. We look forward to the IDA Deputies' meeting to be held in Dublin, Ireland, next month and a successful IDA15 replenishment.

Small states: Efforts to advance the development agenda cannot overlook the particular challenges facing small states, particularly in the Caribbean region. The Caribbean Catastrophe Risk Insurance Facility Trust Fund and the Canada-Caribbean remittance corridor study are two important initiatives for this region. However, crime and violence has emerged as a major development issue, not just for this region but, as the recent UN-HABITAT report asserts, worldwide. The trend, particularly among male youth, is on the rise and undermines efforts to improve governance, investment climates and regional integration. The international community needs to take a fresh and deeper look at this issue.

Good Governance and Accountability

In redefining and focusing its strategic direction, the Bank must recognize that governance matters and it must evolve with changes in the international economy to ensure a legitimate and credible World Bank. Shareholders must begin a serious discussion on how to move this agenda forward, as well as a process with predefined timelines.

The issue of voice has been a long-standing concern at the World Bank, just as it has been at the International Monetary Fund (IMF). While there are links between the IMF and World Bank shareholding structures, discussions on World Bank reform must take into account differences in the ownership structures, as well as the differing roles played by these two institutions in the global community.

We are open to a package that would include at least a doubling of basic votes as a way of enhancing the voting power of the Bank's smallest and poorest members. However, to ensure that all developing members can benefit, we would also support proposals to introduce selective capital increases. It will be important to ensure that any adjustments to shareholdings continue to be primarily based on each member's weight in the global economy. Moreover, we must be sensitive to the need to preserve the IBRD's ability to borrow at the lowest interest rate spreads from international capital markets.

But voice and reform would benefit from a multifaceted approach that goes beyond basic votes and capital increases. We would be open to exploring ways to ensure that clear demonstrations of members' strong and consistent support to the Bank, such as through IDA contributions and other Official Development Assistance spending related to the Bank, are more fully recognized in the institution. In this respect, we would encourage developing countries to take up their full subscriptions to IDA. The institution also needs to review how best to attract qualified developing country candidates to senior management appointments. On this point, I would congratulate the Bank on its recent appointment of Ngozi Okonjo-Iweala as a Managing Director.

Strong Financial Stewardship

Underlying all of our efforts is the need for solid financial stewardship, which is essential to ensure a strong World Bank going forward. The Bank's business model must evolve if it is to continue to meet the demands of its members and provide services that effectively address a spectrum of development needs. To this end, I would urge consideration of a full review of the Bank's longer-term financial situation. This should be with a view to finding significant efficiencies, as well as a better understanding of the growing demands on net income and the potential to leverage Bank resources to meet development needs. Such a review should be treated as an important component of the Long-Term Strategic Exercise.

Annex 3

Communiqués of the International Monetary and Financial Committee of the Board of Governors of the IMF, 2007

Washington, DC
April 14, 2007

1. The International Monetary and Financial Committee held its fifteenth meeting in Washington, D.C. on April 14, 2007 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets-Outlook, Risks, and Policy Responses

2. The Committee welcomes the continued strong, broad-based expansion of the global economy. Growth is becoming regionally more balanced, and is expected to remain strong in 2007 and 2008. Global financial stability continues to be underpinned by solid economic foundations. Downside risks requiring continued vigilance arise from the possibility of a reassessment of risks in global financial market conditions, of a sharper-than-expected slowdown in the U.S. economy, and of a revival of inflationary pressures as output gaps close or if oil prices rebound. The risk to the global economy from a possible rise in protectionism and the substantial foregone growth should the Doha Round fail make trade policy a key medium-term concern. The Committee welcomes progress and continued focus, in IMF surveillance, on the agreed strategy for promoting an orderly unwinding of global imbalances over the medium term. The Committee encourages policies that allow countries to take advantage of financial globalization while containing vulnerabilities.

3. In the advanced economies, monetary policy needs to remain committed to maintaining price stability while taking account of the situation of different countries. Fiscal positions are strengthening, and now is a good time to further advance fiscal consolidation and the fundamental reforms that will help ensure fiscal sustainability in the long term. The focus should be on measures to ensure the viability of healthcare and pension systems in the face of population aging. Potential growth will be bolstered by reforms to enhance the capacity of labor to adapt to, and take full advantage of, globalization, complemented in many countries by further steps to enhance productivity and competition in product and services markets and further steps for free trade and market access.

4. Emerging market and other developing countries continue to perform strongly and are making progress in improving their resilience to possible turbulence in financial markets and volatility in commodity prices. To consolidate this performance and promote sustained growth that is broadly shared, continued efforts are needed to strengthen budgetary positions and improve debt management practices, entrench the credibility of monetary and fiscal policies, and ensure the sustainability of external positions. Advancing reforms to improve the functioning of domestic financial markets and enhance the business and investment environment remains a key medium-term priority. Among some surplus countries, there is a continued need to boost domestic demand and allow for greater exchange rate flexibility.

5. The Committee is particularly encouraged by the continued robust growth in low-income countries, including in Sub-Saharan Africa. The Committee calls on poor countries and donors to continue working in partnership to build on this strong performance so as to accelerate progress towards achieving the Millennium Development Goals (MDGs). Countries should persevere with sound macroeconomic policies and reforms to foster vibrant and diversified market-based economies.

The international community should support these countries' efforts with increased and more efficient aid, including through fulfilling the pledges made by donors to double aid to Sub-Saharan Africa by 2010. The Committee also stresses the importance of further trade liberalization and delivering Aid for Trade commitments. In this context, it looks forward to the early establishment of the enhanced Integrated Framework.

6. The Committee welcomes the report it has received from the Managing Director and the participants in the multilateral consultation on global imbalances launched following the Spring 2006 IMFC meeting. It agrees that resolving imbalances in a manner compatible with sustained global growth is a shared responsibility, and notes that the policy plans set out by the participants-China, the Euro area, Japan, Saudi Arabia, and the United States-represent further progress in the implementation of the strategy the Committee has previously set forth and endorsed. The Committee also notes the assessment by Fund staff that as these policies are implemented, they will make a significant contribution to reducing global imbalances. The Committee considers that the experience gained so far demonstrates that the multilateral consultation approach has been useful for addressing global issues through discussion and cooperation among members, and should prove to be a valuable instrument going forward for enhancing and deepening Fund surveillance. It looks forward to the Executive Board's review of the experience with the process and the conclusions of the first multilateral consultation and of the lessons for the future.

7. The Committee welcomes the resumption of the Doha Round trade negotiations, and calls on WTO members to work with a renewed commitment to urgently achieve an ambitious outcome. Benefiting from the report by WTO Director-General Pascal Lamy on the current status of the negotiations, the Committee looks for strong political leadership from those countries now playing a central role in the negotiations to forge the necessary breakthrough. The Committee emphasizes that all members stand to benefit from a Doha Development Round outcome that promotes growth and fosters economic development by reducing trade barriers and strengthening the multilateral trade system. The Committee considers it critically important to ensure that the benefits of globalization are widely shared and help reduce poverty and income disparities.

Implementation of the IMF's Medium-Term Strategy

8. The Committee welcomes the steps being taken to strengthen and modernize IMF surveillance to ensure its effectiveness as globalization deepens. The Committee calls on the Executive Board to continue to give priority to further work on all aspects of this reform, including updating the 1977 Decision on Surveillance over Exchange Rate Policies. The goal should be to improve the quality of surveillance, its focus, candor, and evenhandedness. In this context, ensuring a medium-term perspective and external stability is important. In this connection, the Committee looks forward to the discussion of the Independent Evaluation Office's (IEO) report on the Evaluation of the IMF's Advice on Exchange Rate Policy. The Committee, with a view to gaining broad support across the membership, agrees that the following principles should guide further work: first, there should be no new obligations, and dialogue and persuasion should remain key pillars of effective surveillance; second, it should pay due regard to country circumstances, and emphasize the need for evenhandedness; and third, it should retain flexibility to allow surveillance to continue evolving.

9. The Committee supports the efforts being made to strengthen the way financial sector, capital market, and exchange rate issues are addressed in surveillance, and to enhance the focus of surveillance on key risks facing members and on cross-country spillovers. It notes the effort of the Fund in enhancing the methodology for assessing the effectiveness of surveillance. The Committee welcomes the continuing work by the Board on independence and accountability in surveillance, as well as on a remit, which could provide a clear statement of surveillance priorities.
The Committee welcomes the priority being given by the Fund to enhancing and deepening the international community's understanding of financial stability issues, which will need to be an increasing focus of the Fund's surveillance. It looks forward to further steps by the Fund to promote dialogue on how financial markets and innovation can work to foster economic growth and financial stability, including possibly in the context of further multilateral consultations. The Committee looks forward to the review of streamlined Article IV consultations.

10. Recognizing the need for more predictable and stable sources of Fund income, the Committee expresses its gratitude to the Committee of Eminent Persons to Study Sustainable Long-Term Financing of the IMF for its report recommending a package of measures to better align the IMF's income with its diverse activities.[18] The Committee considers that the report provides a sound basis for further work on the development of a new income model aimed at broadening its income base that can garner broad support across the membership. It looks forward to proposals on a new income model by the Managing Director for consideration by the Executive Board. The Committee underscores that ensuring a sustainable overall budgetary position to underpin the implementation of the IMF's medium-term strategy also requires action on the expenditure side. This now includes real spending reductions. The Committee welcomes the Fund's ongoing efforts to improve resource allocation and cost effectiveness in line with the priorities of the medium-term strategy. The Committee looks forward to a report on progress on expenditure issues.

11. The Committee reiterates the importance of implementing the program of quota and voice reforms adopted by the Board of Governors in Singapore, in line with the timetable set out in the Resolution. It welcomes the broad consensus reached in the Executive Board on the legal framework of an amendment of the Articles of Agreement regarding basic votes. The Committee welcomes the initial informal Board discussions on a new quota formula and stresses the importance of agreeing on a new formula, which should be simple and transparent and should capture members' relative positions in the world economy. This reform would result in higher shares for dynamic economies, many of which are emerging market economies, whose weight and role in the global economy have increased. The Committee also stresses the importance of enhancing the voice and participation of low-income countries, a key mechanism for which is an increase in basic votes, at a minimum preserving the voting share of low-income countries. The Committee calls on the Executive Board to continue its work on the reform package as a matter of priority.

12. The Committee attaches high importance to further steps by the IMF to strengthen its engagement with emerging market economies. The Committee welcomes the recent progress made in clarifying some key aspects of the design of a new liquidity instrument for market access countries. It calls on the IMF to accelerate its work on addressing the design challenges in developing an instrument that would enhance IMF support to these countries' own strong policies and ensure that

[18] The Committee of Eminent Persons was chaired by Andrew Crockett, and included Hamad Al-Sayari, Mohamed El-Erian, Alan Greenspan, Tito Mboweni, Guillermo Ortiz, Jean-Claude Trichet, and Zhou Xiaochuan.

substantial and timely financing will be available if needed, while safeguarding IMF resources and paying due regard to the interaction with existing IMF facilities.

13. The Committee looks forward to progress on steps to assist members to deepen financial sectors, including local capital markets. It also looks forward to a review of the Fund's policy on lending into arrears. The Board should also conclude its review of charges for Fund financial assistance and its maturity structure.

14. The Committee stresses that the IMF should remain fully engaged with its low-income members in helping them achieve macroeconomic stability supportive to sustainable growth, critical to the achievement of the MDGs. This includes well-designed financial and policy support in the context of surveillance, Fund arrangements, and technical assistance. The Committee calls for continued efforts to help countries reap the benefits of higher aid and debt relief, and avoid a new build-up of unsustainable debt. The Committee welcomes the recent enhancements to the debt sustainability framework for low-income countries. It urges all creditors and borrowers to work with the World Bank and the IMF to use the framework as a tool for fostering coherent and responsible lending practices, identifying emerging debt-related vulnerabilities, and elaborating country-owned debt strategies. The Committee looks forward to further work on the IMF's role in the poverty reduction strategy process and its collaboration with donors.

15. The Committee expresses its gratitude for the work of the members of the External Review Committee on IMF-World Bank Collaboration.[19] The Committee welcomes the report's message that a culture of close cooperation between the IMF and the World Bank, taking into account each institution's comparative advantages, respective mandate and responsibilities, is key to delivering services to members more effectively and efficiently. The Committee looks forward to proposals from the two institutions to strengthen collaboration.

Other Issues

16. The Committee calls for closer cooperation between the IMF and Financial Action Task Force in promoting stronger implementation of international anti-money laundering and combating terrorist financing (AML/CFT) standards and encourages publication of comprehensive country evaluations.

17. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement for a special one-time allocation of SDRs.

18. The Committee values highly the contribution of the IEO to the learning culture of the IMF and to facilitating oversight and governance. It welcomes the evaluation of the IMF and Aid to Sub-Saharan Africa, and the steps being taken to ensure that the IEO recommendations endorsed by the Executive Board are effectively internalized in the work of the IMF.

19. The Committee expresses its appreciation of the work of Agustín Carstens as Deputy Managing Director, and wishes him success in his new responsibilities as Secretary of Finance and Public Credit of Mexico and Chairman of the Development Committee.

20. The next meeting of the IMFC will be held in Washington, D.C. on October 20, 2007.

[19] The external Review Committee was chaired by Pedro Malan, and included Michael Callaghan, Caio Koch-Weser, William McDonough, Sri Mulyani Indrawati, and Ngozi Okonjo-Iweala.

Washington, DC
October 20, 2007

1. The International Monetary and Financial Committee held its sixteenth meeting in Washington, D.C. on October 20, 2007 under the Chairmanship of Mr. Tommaso Padoa-Schioppa, the Minister of Economy and Finance of Italy. The Committee welcomes Mr. Padoa-Schioppa, the new IMFC Chairman; it expresses its deep gratitude to Mr. Gordon Brown for his invaluable contributions to the work of the Committee and the Fund throughout the eight years of his Chairmanship of the Committee, and extends its best wishes.

The Global Economy and Financial Markets-Outlook, Risks, and Policy Responses

2. The Committee welcomes the strong global growth in the first half of 2007. It notes that the global economy continues to be underpinned by strong fundamentals and the robust growth of emerging market and other developing economies. Recent disturbances in financial markets in advanced economies are expected to have a moderating effect on growth in the near term, and downside risks to the outlook have increased. The Committee underscores the importance of sound macroeconomic policies in the medium term and continued vigilance to maintain well-functioning financial markets and to strengthen the foundations for sustained high growth. The Committee notes with satisfaction the resilience of emerging market and other developing economies in the face of recent financial market turbulence.

3. Central banks in advanced economies have been playing a critical role in ensuring the smooth functioning of money markets by providing necessary liquidity while remaining watchful that financial markets continue to operate effectively. At the same time, monetary policy should focus on achieving price stability while continuing to assess carefully the inflation outlook, taking into account both the inflationary pressures stemming from tight commodity markets and rising oil and food prices, and downside risks to growth.

4. Ministers and central bank governors had a useful discussion today on the lessons emerging from the current episode of financial market turbulence, and are committed to continuing to work together, including multilaterally, to analyze the nature of the disturbances and consider lessons to be learned and actions needed to prevent further turbulence. The Committee agrees that financial innovation and securitization, while having contributed to enhanced risk diversification and improved market efficiency, have also created some new challenges that need to be properly addressed.

5. The Committee stresses that national authorities, standard-setting bodies, the Financial Stability Forum, the Bank for International Settlements, and the IMF, working together in line with their respective mandates, have complementary roles to play in analyzing financial stability issues, helping to identify and address information gaps and providing fora for discussions and actions. Areas to be addressed include: risk management practices related to complex structured products; valuation and accounting for off-balance sheet instruments, especially in times of stress; clarifying the treatment of complex products by ratings agencies; addressing basic principles of prudential oversight for regulated financial entities; and liquidity management. The Committee will take stock of the work undertaken at its next meeting.

6. The Committee welcomes the progress being made in prioritizing financial sector issues in the IMF's work. It calls for continued efforts to broaden and deepen the IMF's financial expertise to identify future issues, and to better integrate the findings of the IMF's multilateral surveillance in its

regional and bilateral surveillance. The Committee also notes the growing importance of Sovereign Wealth Funds in international financial markets. While recognizing their positive role in enhancing market liquidity and financial resource allocation, the Committee welcomes the work by the IMF to analyze issues for investors and recipients of such flows, including a dialogue on identifying best practices. It stresses the importance of resisting protectionism and maintaining an open global financial system.

7. The Committee underlines the importance of further action to strengthen the foundations for sustained high growth over the medium term. Many countries need to pursue ambitious medium-term fiscal consolidation plans to address pressures on social spending arising from population aging. Structural reforms to take full advantage of the opportunities provided by globalization and technological advances should include further liberalization of service sectors in advanced economies, as well as further actions to improve infrastructure and the business environment and develop a sound financial sector in emerging market and other developing countries. To address growing income disparities, the Committee stresses the importance of strengthening education, creating jobs in the most dynamic sectors, pursuing well-designed tax policies, and providing adequate safety nets. Further trade opening, improved access to markets, and fulfillment of aid commitments by donors will be key to sustaining their robust growth performance.

8. The Committee calls for sustained implementation of the policy plans reaffirmed at the Spring 2007 IMFC meeting by the participants in the multilateral consultation on global imbalances. It reiterates that an orderly unwinding of global imbalances, while sustaining global growth, is a shared responsibility involving: steps to boost national saving in the United States, including continued fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural reforms and fiscal consolidation in Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil-producing countries.

9. The Committee expresses concern with the continued lack of progress with the Doha multilateral trade round, and urges WTO members to work toward a prompt and ambitious conclusion of the Doha Round trade negotiations launched in 2001 as a development round.

Implementation of the IMF's Medium-Term Strategy: Priorities Ahead

10. The Committee stresses the critical importance of the implementation of the program of quota and voice reforms adopted by the Board of Governors in Singapore. The Committee welcomes the report of the Executive Board to the Board of Governors, takes note of the progress made on several elements of the program, and urges the Executive Board to continue working to achieve an agreement within the timetable and objectives set forth in the Singapore Resolution. In particular, the Committee supports the inclusion of GDP in the new formula as the most important variable. It also considers that PPP-GDP should play a role, along with a compression factor. The Committee stresses that the total quota increase should be of the order of ten percent, with at least a doubling of basic votes. The Committee reiterates that the reform should enhance the representation of dynamic economies, many of which are emerging market economies, whose weight and role in the global economy have increased. An outcome of the second round of reforms should be a further increase in the voting share of emerging market and developing economies as a whole. The Committee also stresses the importance of enhancing the voice and representation of low-income countries. The Committee encourages the Executive Board to continue its work in order to allow agreement on all the elements of the package by Spring 2008.

11. The Committee recognizes the need for more predictable and stable sources of Fund income to finance its diverse activities. It welcomes the progress made in developing operational guidelines to implement the recommendations of the Committee of Eminent Persons chaired by Mr. Andrew Crockett. The Committee notes that both income and expenditure will need to contribute to putting the Fund's finances on a sustainable footing. While welcoming the Fund's ongoing efforts to reduce administrative expenditures, the Committee sees the need for greater efficiency and saving through Fund-wide priority setting. This should be achieved within a new medium-term budget envelope, while preserving the effectiveness of the Fund in fulfilling its core mandate. The Committee therefore calls on the Executive Board to develop specific proposals on the new income model and the new expenditure framework by the time of the 2008 Spring meeting, and to agree on a new and detailed medium-term budgetary envelope for the FY 2009 budget that is consistent with the emerging income and expenditure framework.

12. The Committee welcomes the progress on strengthening IMF surveillance, including: the adoption of the Bilateral Surveillance Decision in June 2007; the agreement in principle on the adoption by the Executive Board of a statement of surveillance priorities in the context of the 2008 Triennial Surveillance Review, to guide the Fund's surveillance work and enhance accountability; and the ongoing integration of financial sector issues into macroeconomic analysis and bilateral surveillance. Evenhanded implementation of the new Decision is an essential element of the Medium-Term Strategy. The Committee looks forward to review the progress and experiences in these areas, as well as the upcoming review of experience with streamlined Article IV consultations.

13. The Committee supports the priority being given in the Fund's policy advice to emerging market economies in working with them on the timely identification of vulnerabilities, the strengthening of debt management practices and deepening of local capital markets, and the design of policy responses in the face of large capital inflows. The Committee notes the work undertaken in designing a new liquidity instrument to help countries' crisis prevention efforts, while providing adequate safeguards to Fund resources. While there has been support on key elements of such an instrument, concerns regarding potential demand for it and important design features still need to be resolved. The Committee calls on the Executive Board to continue its work on the instrument's design, paying due regard to the interaction with existing IMF facilities and to the views of potential users. The Committee looks forward to the follow-up on the review of charges and maturities for Fund financial assistance, and to the review of the Fund's policy on lending into arrears.

14. The Committee welcomes the progress on clarifying the role of the Fund in low-income countries. This includes well-designed financial and policy support in the context of surveillance, Fund arrangements, and technical assistance. The Committee looks forward to a comprehensive operational framework, which will draw together the various strands of the Fund's work in low-income countries with a view to enhancing the focus and effectiveness of the Fund's engagement with these countries. The Committee stresses the importance of delivering aid for trade commitments and encourages ongoing initiatives by the WTO and other institutions to enhance aid for trade and improve its coordination and delivery. The Committee attaches high priority to helping countries reap the benefits of higher aid and debt relief, while avoiding a new build-up of unsustainable debt. The Committee welcomes recent initiatives to help low-income countries build on the debt sustainability framework to design medium-term debt strategies, as well as efforts to foster sustainable lending. It calls on all creditors and borrowers to use the framework as a key tool for adhering to responsible and transparent lending practices. The Committee urges full participation by all official bilateral and commercial creditors in the HIPC Initiative; it expresses concern about growing litigation against HIPCs, which

presents a major challenge to the implementation of the Initiative. The Committee looks forward to urgent progress on financing assurances by member countries to allow Liberia to benefit from debt relief. The IMF is prepared to consider other similar cases in due course.

15. The Committee welcomes the Joint Management Action Plan on Bank-Fund collaboration, which will foster closer and more efficient cooperation and clear delineation of responsibilities between the Bank and the Fund, including in their work on low-income countries.

Other Issues

16. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement for a special one-time allocation of SDRs.

17. The Committee values highly the contribution of the IEO to the learning culture of the IMF and to facilitating oversight and governance. It welcomes that the enhanced framework for implementing the IEO recommendations endorsed by the Executive Board is now fully operational.

18. The Committee pays tribute to Mr. Rodrigo de Rato for his skillful and strategic leadership as Managing Director of the International Monetary Fund. As architect of the Fund's Medium-Term Strategy, he has positioned the Fund well to meet the challenges of a rapidly evolving global economy. Mr. de Rato deepened the integration of financial sector issues in the Fund's work and launched a bold reform to strengthen the voice and representation of low-income and emerging market countries in the Fund. He brought clarity to the role of the Fund in its bilateral surveillance and successfully introduced the new multilateral consultation instrument. Mr. de Rato's persuasiveness in convincing the membership of the need for a new income model for the Fund has been instrumental in launching a strategic reflection on the Fund's income and expenditure that will help ensure the Fund's financial sustainability in the new international environment. The Committee wishes to express its thanks to Mr. de Rato for his dedication and vision, which have helped set the Fund on a strong and positive path to the future.

19. The Committee warmly welcomes the appointment of Mr. Dominique Strauss-Kahn as the new Managing Director, and looks forward to working closely with him in meeting the challenges ahead.

20. The next meeting of the IMFC will be held in Washington, D.C. on April 12, 2008.

Annex 4

Communiqués of the Development Committee of the Boards of Governors of the World Bank and IMF, 2007

Washington, DC
April 15, 2007

1. We met today to review progress on actions, resources and policies needed to accelerate progress towards the Millennium Development Goals (MDGs), drawing on data and analysis in the fourth annual Global Monitoring Report (GMR). We also reviewed the World Bank Group's Africa Action Plan, and a report on the evolving Aid Architecture.

2. We welcomed the progress being made in reducing income poverty, reflecting both the continued strong growth of the global economy and the impact of improved country policies and institutions. However, progress towards the MDGs has been uneven across countries and sectors. A lot of challenges remain and much more needs to be done.

3. We noted that total Official Development Assistance (ODA) flows have grown in real term over the past decade. A significant part of this increase reflects debt relief, which is making important contributions to country-level financial resources and progress. However, there is a concern that total ODA actually declined in real terms in 2006. The pledges made in 2005 to double aid for Africa by 2010 have not yet been translated into increased total donor resources for programs on the ground. We reiterated our call to those donors who have not done so to make concrete efforts towards the target of 0.7 percent of Gross National Income as ODA in accordance with their commitments. Consistent with the Monterrey Consensus and donor commitments, we called for renewed efforts at scaling-up financing to support sound country-owned programs for the achievement of the MDGs. In this context, we look forward to a successful 15th replenishment of the International Development Association (IDA), including dollar for dollar replenishment of lost credit flows due to the Multilateral Debt Relief Initiative (MDRI) and the HIPC Initiative. As financial flows increase, it will be important to maintain debt sustainability. We encouraged the Bank and the Fund to report regularly on the extent of full creditor participation in HIPC and delivery of donor commitments to financing the full cost of debt relief. We urged debtors and creditors to use the Bank-Fund debt sustainability framework to guide their decisions. We also urged the Bank and the Fund to intensify their efforts to enhance creditor coordination around the debt sustainability framework, and to support borrowers in building debt management capacity and in devising and implementing sound external finance strategies.

4. We welcomed new and emerging public and private sources of aid that bring more resources to help poor countries reach their MDGs. At the same time, we noted the increasing risks of aid fragmentation and earmarking of aid leading to higher transaction costs for recipients and reduced aid effectiveness. We therefore emphasized the importance of the country-owned approach to development, which provides an essential platform for aligning multiple sources of development finance, including global programs, with national priorities and country systems. We reiterated the importance of reinforcing donor coordination, including between traditional and emerging donors, as well as enhancing efforts to ensure aid effectiveness, and progress in implementing the Paris Declaration.

We look forward to follow-up work on the Bank's role in the international aid architecture, focusing on how best the Bank Group can add value by playing a strategic or supportive role, including through partnerships, at country, regional and global levels. In this context, we welcomed the Bank management's decision to launch a review of the Bank Group's long term strategy to assure it is best positioned to effectively meet the needs of the world's poor. We also look forward to receiving a report on the Bank's progress in developing a framework for its role in delivery of global and regional public goods including criteria for its involvement and financing modalities.

5. There are encouraging signs in current efforts to meet the human development MDGs, including major increases in primary school completion and vaccination coverage. In this respect, we welcomed the recent launch of the Advance Market Commitments initiative. Yet only a few countries are on track to meet the MDG for reducing child mortality, and in all regions some countries are off track on reducing childhood malnutrition and maternal mortality. We called for further reinforcement of country, donor and MDB efforts targeting the MDGs' quantitative goals in health and education, including for the prevention and treatment of HIV/AIDS, malaria and tuberculosis. We also stressed the need for heightened attention to universal access to reproductive health services and to improving and monitoring the quality of education and health services. We appreciated the Bank's continuing support to the Education for All - Fast Track Initiative, but recognized that more support is needed to finance national education plans. We encouraged the Bank and other donors to play their part.

6. Gender equality and the empowerment of women are important not only for achieving gender-specific aspects of the MDGs (such as progress on gender equality in school enrollments and literacy, and the share of women in non-agricultural employment and national parliaments), but also for the attainment of the MDGs as a whole. We welcomed the progress many countries have made on girls' school enrollment, while noting that there is still much to be done in many countries. We noted that progress in the social sectors has not, in general, been matched by comparable advances in the productive sectors. We called for full and rapid implementation of the Bank's Gender Action Plan, focusing on areas where it has comparative advantage, including scaling up support for economic empowerment of women. We emphasized the need for further gender mainstreaming in Bank operations using a country based approach, and for the integration of gender aspects into the Bank's results framework. We also called for improvements in the statistical basis for monitoring progress, working closely with the UN and other agencies.

7. Fragile states, defined by the weakness of their institutions and governance, and frequently associated with recent conflicts, account for 9 percent of the population of developing countries but about 27 percent of the extreme poor. They are the countries least likely to achieve the MDGs. Yet several countries have shown that it is possible to transition from weak institutions and the legacy of conflict to sustained gains in growth and poverty reduction. We encouraged the International Financial Institutions (IFIs), working in partnership with the UN and other donors, to review their policies, procedures and incentives, including the development of a comprehensive framework for the settlement of protracted arrears cases. Collective efforts are also needed to formulate, in a coherent and harmonized manner, tailored strategies that pay attention to timely, well-sequenced interventions that build capable, accountable and responsive states, reflecting each actor's comparative advantage. In this context, we called for effective and expeditious implementation of the measures recently approved by the Bank's Board to strengthen the Bank's rapid response and long-term engagement in fragile states.

8. We reviewed the implementation of the Africa Action Plan (AAP) and the proposed revisions to the Plan. While welcoming indications that the overall implementation of the Plan has been progressing relatively satisfactorily, we broadly supported the proposed modifications to the AAP, which promise to increase selectivity and sharpen the focus on results. At the same time, we emphasized the continued relevance we attach to the original strategic goals of the AAP, including support for African countries' efforts to accelerate pro-poor growth and maximize achievement of the MDGs. We stressed that the Bank's support should continue to be determined by countries' own plans and that implementation of the AAP should not leave any countries behind or undermine agreed resource allocation systems. We also called for the Bank to make greater use of outcome indicators to measure progress and results. We strongly endorsed the AAP's strategy for mobilizing additional development partner resources, including from non-OECD/DAC and private donors, in a coordinated way, consistent with the Paris Declaration.

9. We noted the importance of trade as a driver of growth and poverty reduction and expressed our continued hope for a breakthrough in the Doha Development Round negotiations. We agreed that there is much at stake for all member countries and we recognized that failure to seize the current opportunity could come at considerable cost to the global economy and in particular, to developing countries. We called upon all parties to demonstrate the flexibility needed to achieve a successful outcome. To complement trade reforms and assist developing countries in fully exploiting existing and new trade opportunities, we look to the Fund and, particularly, the Bank for leadership in further strengthening the mechanisms for Aid for Trade and accelerating its implementation.

10. We welcomed the report of the Executive Directors of the World Bank and the accompanying paper entitled "Strengthening Bank Group Engagement on Governance and Anticorruption (GAC)." We expressed our appreciation for the Bank's response to our guidance, including the extensive consultations that contributed to the revised strategy. We endorsed the strategy's principles of transparency, predictability, consistency and equity of treatment across member countries. Effective implementation, including further development of actionable and disaggregated indicators, will now be critical to achieving the GAC strategy's desired results. In this context, we welcomed the agreed Board engagement and oversight during implementation.

11. We noted the progress made in implementing the World Bank Group's Strategy for Engagement with IBRD Partner Countries. We look forward to receiving a full report on implementation of all the elements of the strategy at our next meeting.

12. We noted the progress made with the Clean Energy for Development Investment Framework. Lack of access to energy is an acute problem in many low income countries. We welcomed the World Bank Group's Action Plan and generally endorsed the activities contained there. We look forward to receiving a progress report by our next meeting. In particular, we look forward to seeing progress on: (i) additional financing and implementation of the energy access agenda in Sub-Saharan Africa; (ii) application and further development of existing financial instruments to promote the transition to a low carbon economy, including increased support for cost effective, affordable, efficient and renewable energy; (iii) mainstreaming considerations of climate variability and change into development projects; (iv) consultation and collaboration with the private sector; and (v) an action plan for strengthened collaboration with the Regional Development Banks.

13. We took note of the Bank's analysis of "Fiscal Policy for Growth and Development" and encouraged the Bank to develop and operationalize growth-oriented, country-specific approaches to fiscal policy design. We endorsed the need for effective Bank-Fund collaboration to ensure consistent policy advice to member countries. We concurred with the conclusion that countries will need assistance to strengthen fiscal institutions, which are key to effective policy.

14. We welcomed the "Options Paper on Voice and Representation," setting out a comprehensive range of options for enhancing the voice of developing and transition countries in the Bank's decision-making framework, which we note is key to strengthening the credibility and legitimacy of the institution. We recognized that further consultations are necessary to reach a political consensus and expect the Bank to continue carrying out technical work to assist such consultations. We look forward to a report from the Bank by our next meeting.

15. We thanked the External Review Committee for its report on Bank-Fund collaboration. We look forward to hearing from the two institutions about concrete proposals to foster a culture of collaboration.

16. We have to ensure that the Bank can effectively carry out its mandate and maintain its credibility and reputation as well as the motivation of its staff. The current situation is of great concern to all of us. We endorse the Board's actions in looking into this matter and we asked it to complete its work. We expect the Bank to adhere to a high standard of internal governance.

17. We welcomed Minister Agustín Carstens as the new Chairman of the Committee. We expressed appreciation for the service of the former Chairman, Alberto Carrasquilla.

18. The Committee's next meeting is scheduled for October 21, 2007 in Washington, DC.

Washington, DC
October 21, 2007

1. We met today in Washington, DC on Sunday, October 21, 2007.

2. We welcomed the opportunity to discuss the future strategic direction of the World Bank Group, and thanked the President for his presentation. We recognized the potential of the goal of inclusive and sustainable globalization to guide the Bank mission of promoting economic growth and reducing poverty, including helping countries attain the Millennium Development Goals (MDGs). We welcomed the President's commitment to develop and refine the strategic framework in a consultative manner under the guidance of the Bank Board, and looked forward to reviewing progress at our next meeting. We emphasized the importance of efforts to strengthen synergy among the Bank Group institutions, building upon their respective areas of competence.

3. We agreed that strengthened support for the inclusion and empowerment of the poorest in development, especially in Sub-Saharan Africa, and for active engagement by the Bank Group in fragile and conflict-affected states, must be key elements in the strategic framework. We also noted that gender equality and women's rights are crucial for sustainable poverty reduction. The Bank Group must also ensure its continued relevance to the needs and demands of Middle Income Country members. We welcomed progress in implementing the framework for partnership with IBRD clients, and the recent simplification and reduction in IBRD pricing. We urged the Bank to make further progress in reducing the non-financial cost of doing business, including enhancing the use of country systems where appropriate.

4. We welcomed the report on the Bank Group's role in Global Public Goods (GPGs) and its emphasis on integrating the GPG agenda into country-owned programs at country and regional levels. We stressed the importance of the Bank responding to global challenges, while exercising selectivity, focusing on its comparative advantage, filling institutional gaps and cooperating closely with other international institutions. We underlined the importance of innovative financing mechanisms. We also encouraged the Bank to further strengthen its work as a knowledge-broker on development policy.

5. We welcomed the recent adoption of strategies on health and the financial sector. We emphasized the importance of successful implementation of the governance and anti-corruption strategy.

6. We welcomed the progress made by many low-income countries in strengthening development strategies and implementing policy and institutional reforms, and noted that many countries have enhanced their capacity to absorb larger amounts of aid productively. We emphasized the need to sharpen the focus of poverty reduction strategies on stronger, shared, private sector- led growth, to link these strategies better to budgetary frameworks, and to implement them effectively. We reaffirmed the importance of the country-based model, founded on strong country ownership, which is crucial for improving aid effectiveness and harmonization.

7. We called on donors to meet their respective commitments to scale up aid for development, improve aid predictability and address financing gaps for meeting the MDGs. We reiterated our call to those donors who have not done so to make concrete efforts towards the target of 0.7% of gross national income as Overseas Development Assistance in accordance with their commitments. We noted that emerging new donors and creditors bring much-needed resources and development knowledge, while underscoring that the effectiveness of these resources will depend on their alignment with country priorities, as well as creditors' commitment to the debt sustainability framework. We encouraged wider implementation of the Results, Resources, and Partnership approach. We underlined the need for a strong IDA15 replenishment to enable IDA to play its crucial platform role in the evolving aid architecture. We welcomed the very substantial contribution to IDA from IBRD and IFC earnings, and the proposed enhanced collaboration between IFC and IDA on private sector development.

8. We noted that global economic growth remains strong and the direct impact of recent financial market turbulence on developing countries has been limited. We urged governments to continue implementing policies supporting economic resilience, and urged the Bank and the Fund to support and monitor those efforts.

9. We welcomed progress in implementing the Bank's Clean Energy Investment Framework. We recognized the critical importance of energy access for growth. We asked the Bank Group to increase its support for access to modern, cost-effective, clean energy, especially among the poorest and in Sub-Saharan Africa. We also called for expanded work on energy efficiency and renewable energy, and facilitation of the development and dissemination of related knowledge and technology.

10. Bearing in mind the scale of the challenge of addressing the causes and impacts of climate change, we called on Bank management to develop a strategic framework for Bank Group engagement, including support for developing countries' efforts to adapt to climate change and to achieve low-carbon growth while reducing poverty. In this connection, we urged the Bank Group to enhance cooperation and harmonization with other development partners, based on comparative advantages, and to help catalyze substantial additional resources from both public and private sources, including concessional finance as appropriate (e.g., Global Environment Facility). We welcomed the focus on environmental sustainability in the 2008 Global Monitoring Report.

11. We noted the progress in implementing the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), and stressed the need for all creditors to participate on an equitable basis, including non-Paris club and commercial creditors. We stressed the importance of providing dollar for dollar compensation for lost credit reflows due to the MDRI and HIPC initiatives, as agreed. We observed that, improved debt burden indicators notwithstanding, the risk of debt distress in many HIPCs remains a challenge to their long-term debt sustainability. In this regard, we emphasized the importance of sound lending and borrowing decisions guided by the Bank-Fund Joint Debt Sustainability Framework (DSF), and the strengthening of public debt management, for preventing unsustainable accumulation of debt by HIPCs. We welcomed the efforts of the OECD Export Credit Group to develop sustainable lending guidelines embodying the DSF.

12. We reiterated our strong support for intensified efforts to agree on an ambitious pro-development Doha Round. We stressed the need to integrate trade and competitiveness within national development strategies, while stepping up support for Aid for Trade, as proposed by the Bank and Fund.

13. We welcomed the Options Paper on Voice and Participation. We recognized that further consultations among shareholders will be necessary to reach a political consensus on a comprehensive package and look forward to a timely report on the progress achieved.

14. We are encouraged that the World Bank Board, together with management, is continuing to review and reform key aspects of the Bank's governance.

15. We took note of the Joint Management Action Plan prepared by the World Bank and the Fund as a follow up to the report of the External Review Committee on Bank-Fund Collaboration.

16. We welcomed Robert B. Zoellick on his appointment as World Bank President and look forward to working with him. We thanked Paul Wolfowitz for his contribution to the work of the World Bank. We expressed our deep appreciation for the leadership of Rodrigo de Rato at the IMF, and welcomed the selection of Dominique Strauss-Kahn as his successor.

17. The Committee's next meeting is scheduled for April 13, 2008 in Washington, DC.

Annex 5

Operational Highlights and Key Financial Indicators of the IMF in Fiscal Year 2007

International Monetary Fund

The flow of IMF repurchases and repayments were larger than the flow of disbursements in FY2006 and FY2007. However, the gap between the two figures is smaller, reflecting both a slight increase in disbursements, and repurchase and repayment by several member countries in FY2006.

IMF Resource Flows as of April 30

(millions of SDRs)

	FY2006	FY2007
Purchases	2,156	2,329
PRGF loans	403	477
Total disbursements	2,559	2,806
Repurchases	32,783	14,166
PRGF repayments	3,208	512
Total repurchases and repayments	35,991	14,678

Note: Numbers may not add due to rounding.

Outstanding credits decreased substantially from FY2006 to FY2007, primarily due to reductions in the purchase (use by members) of Stand-By Arrangements and Extended Arrangements.

Outstanding Credit by Facility and Policy as of April 30

(millions of SDRs)

	FY2006	FY2007
Stand-By Arrangements	11,666	6,537
Extended Arrangements	7,477	717
Supplemental Reserve Facility	–	–
Compensatory and Contingency Financing Facility	84	79
Systemic Transformation Facility	–	–
Subtotal, General Resources Account	19,227	7,333
SAF arrangements	9	9
PRGF arrangements	3,819	3,785
Trust Fund	89	89
Total	23,144	11,216

Note: Numbers may not add due to rounding.

Please see the IMF 2007 Annual Report for detailed data regarding the policies and finances of the IMF. All data referenced in this annex can be found in the Appendices of the IMF 2007 Annual Report.

Annex 6

Active IMF Lending Arrangements—as of December 31, 2007[19]

(in millions of SDRs)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
Stand-by Arrangements—Total			7,906.3	3,121.5
Dominican Republic	January 31, 2005	January 30, 2008	437.8	77.0
Gabon	May 7, 2007	May 6, 2010	77.1	77.1
Iraq	December 19, 2007	March 18, 2009	475.3	475.3
Macedonia, former Yugoslav Republic of	August 31, 2005	August 30, 2008	51.6	41.1
Paraguay	May 31, 2006	August 31, 2008	30.0	30.0
Peru	January 26, 2007	February 28, 2009	172.3	172.3
Turkey	May 11, 2005	May 10, 2008	6,662.0	2,248.4
Extended Fund Facility Arrangements—Total			8.5	3.6
Albania	February 1, 2006	January 31, 2009	8.5	3.6
Poverty Reduction and Growth Facility—Total			844.3	440.7
Afghanistan, Islamic Republic of	June 26, 2006	June 25, 2009	81.0	45.2
Albania	February 1, 2006	January 31, 2009	8.5	3.6
Armenia, Republic of	May 25, 2005	May 24, 2008	23.0	3.3
Benin	August 5, 2005	August 4, 2008	6.1	3.5
Burkina Faso	April 23, 2007	April 22, 2010	6.0	5.5
Burundi	January 23, 2004	January 22, 2008	69.3	7.1
Cameroon	October 24, 2005	October 23, 2008	18.5	7.9
Central African Republic	December 22, 2006	December 21, 2009	36.2	15.5
Chad	February 16, 2005	February 15, 2008	25.2	21.0
Congo, Republic of	December 6, 2004	June 5, 2008	54.9	31.4
Gambia, The	February 21, 2007	February 20, 2010	14.0	10.0
Grenada	April 17, 2006	April 16, 2009	10.5	8.9
Guinea	December 21, 2007	December 20, 2010	48.1	41.3
Haiti	November 20, 2006	November 19, 2009	73.7	38.0
Kyrgyz Republic	March 15, 2005	May 31, 2008	8.8	1.2
Madagascar	July 21, 2006	July 20, 2009	54.9	39.2
Malawi	August 5, 2005	August 4, 2008	38.1	16.2
Mauritania	December 18, 2006	December 17, 2009	16.1	7.7
Moldova, Republic of	May 5, 2006	May 4, 2009	110.8	45.7
Nicaragua	October 5, 2007	October 4, 2010	71.5	59.6
Niger	January 31, 2005	May 31, 2008	26.3	0.9
Rwanda	June 12, 2006	June 11, 2009	8.0	4.5
Sâo Tomé and Príncipe	August 1, 2005	July 31, 2008	2.9	0.8
Sierra Leone	May 10, 2006	May 9, 2009	31.1	22.0
Grand total			8,759.1	3565.8

Note: Numbers may not add due to rounding.

Source: www.imf.org/external/fin.htm

Annex 7

Operational Highlights and Key Financial Indicators of the World Bank Group in Fiscal Year 2007

Operational highlights and key financial indicators for World Bank Group associations are summarized in the following table. IBRD lending commitments to member countries were $12.8 billion in FY2007, reflecting a decrease of $1.3 billion from FY2006 levels of $14.1 billion. Comparatively, IDA lending reached a record high at $11.9 billion for 189 projects—a 25 per cent increase in dollar terms from FY2006. The IFC invested over $8 billion in FY2007, about a third of these investments went to frontier and IDA countries. Commitments approved by the MIGA Board of Directors amounted to $1.9 billion, and fiscal-year guarantees issued were up approximately 5 per cent in FY2007 compared to FY2006.

World Bank institutions continued to maintain strong financial positions in FY2007. The IBRD maintained its FY2006 return on average assets level of 0.8 per cent in FY2007. The IFC continued to grow and posted a strong return on investment of 6.4 per cent in FY2007; this was up from 3.6 per cent in FY2006. MIGA return on operating capital before provisions was up significantly from FY2006 at 6.1 per cent in FY2007.

International Bank for Reconstruction and Development
(millions of US dollars)

	FY2006	FY2007
Administrative expenses	1,055	1,236
Operating income	1,740	1,659
Total assets	212,326	208,030
Cumulative commitments	420,200	433,000
Fiscal-year commitments	14,135	12,800
Number of projects	112	112
Gross disbursements	11,833	11,055
Principal repayments including prepayments	13,600	17,231
Net disbursements	(1,767)	(6,176)
Return on average assets (per cent)	0.8	0.8
Equity-to-loans ration (per cent)	33	35

International Development Association
(millions of US dollars)

	FY2006	FY2007
Administrative expenses	954	976
Operating income (loss)	(2,043)	(2,075)
Total applications of development resources	102,871	111,330
Cumulative commitments	170,000	181,000
Fiscal-year commitments	9,506	11,867
Number of projects	167	189
Gross disbursements	8,910	8,579
Principal repayments	1,680	1,753
Net disbursements	7,230	6,826

International Finance Corporation
(millions of US dollars)

	FY2006	FY2007
Administrative expenses	436	482
Operating income (loss)	1,409	2,611
Total assets	38,420	40,550
Committed portfolio	21,600	25,400
Fiscal-year commitments	6,700	8,200
Number of projects	284	299
Loan and equity investments, net	12,731	15,812
Return on average assets (per cent)	3.6	6.4
Debt-to-equity ratio	1.5	

Multilateral Investment Guarantee Agency
(millions of US dollars)

	FY2006	FY2007
Administrative and other expenses	31.3	30.1
Operating income	17.2	49
Total assets	1,282	1,136
Statutory underwriting capacity	10,216	10,570
Cumulative guarantees issued	16,000	17,400
Fiscal-year guarantees issued	1,302	1,368
Number of projects	41	
Net exposure	3,310	3,209
Operating capital/net exposure (per cent)	26.1	29.6
Return on operating capital, before provisions (per cent)	2.0	6.1

Source: The World Bank Group Annual Report, 2007.

Annex 8

IBRD Loans and IDA Credits—Summary Statistics for Fiscal Year 2007
(millions of US dollars)

By Area	IBRD Amount	IDA Amount	Total Amount
Africa	37.5	5,759.4	5,796.9
East Asia and Pacific	2,806.6	1,237.4	4,043.9
Europe and Central Asia	3,340.1	422.1	3,762.2
Latin America and the Caribbean	4,353.3	200.0	4,553.3
Middle East and North Africa	691.9	216.0	907.9
South Asia	1,599.5	4,032.1	5,631.6
Total	12,828.9	11,867.0	24,695.8

By Theme	Total Amount
Economic Management	248.3
Environmental and Natural Resources Management	2,017.0
Financial and Private Sector Development	4,260.8
Human Development	4,089.4
Public Sector Governance	3,389.7
Rule of Law	424.5
Rural Development	3,175.7
Social Development, Gender and Inclusion	1,250.3
Social Protection and Risk Management	1,647.6
Trade and Integration	1,569.9
Urban Development	2,622.7
Total	24,695.8

Source: The World Bank Group Annual Report, 2007.

Annex 9

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2007, by Region and Country

(millions of dollars)

	IBRD loans		IDA loans		Total loans	
Region/country	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
Africa						
Africa—region			4	707.2	4	707.2
Angola			1	102.0	1	102.0
Benin			3	105.0	3	105.0
Burkina Faso			2	84.0	2	84.0
Burundi			3	120.0	3	120.0
Cameroon			1	80.0	1	80.0
Cape Verde			1	15.0	1	15.0
Central African Republic			2	100.0	2	100.0
Chad			2	25.0	2	25.0
Comoros			1	5.0	1	5.0
Congo, Democratic Republic of			2	330.0	2	330.0
Congo, Republic of			1	35.0	1	35.0
Ethiopia			5	630.0	5	630.0
Gambia, The			1	12.0	1	12.0
Ghana			3	205.0	3	205.0
Kenya			6	395.0	6	395.0
Lesotho			2	31.6	2	31.6
Liberia			3	30.0	3	30.0
Madagascar			9	151.6	9	151.6
Malawi			3	70.0	3	70.0
Mali			5	205.0	5	205.0
Mauritania			2	18.0	2	18.0
Mauritius	1	30.0			1	30.0
Mozambique			3	200.0	3	200.0
Namibia	1	7.5			1	7.5
Niger			3	70.0	3	70.0
Nigeria			6	750.0	6	750.0
Rwanda			3	70.0	3	70.0
Senegal			4	145.0	4	145.0
Sierra Leone			2	48.0	2	48.0
Tanzania			3	432.0	3	432.0
Uganda			3	540.0	3	540.0
Zambia			2	48.0	2	48.0
Total	2	37.5	91	5,759.4	93	5,796.9

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2007, By Region and Country *(cont'd)*
(millions of dollars)

	IBRD loans		IDA loans		Total loans	
Region/country	No.	Amount	No.	Amount	No.	Amount
East Asia and Pacific						
Cambodia			1	18.5	1	18.5
China	10	1,641.0			10	1,641.0
Indonesia	3	770.8	2	388.5	5	1,159.3
Lao People's Democratic Republic			3	28.0	3	28.0
Mongolia			2	36.5	2	36.5
Papua New Guinea			1	37.3	1	37.3
Philippines	4	394.8			4	394.8
Samoa			0	8.3	0	8.3
Timor-Leste			2	8.5	2	8.5
Vietnam			8	711.8	8	711.8
Total	17	2,806.6	19	1,237.4	36	4,043.9
South Asia						
Afghanistan			6	311.8	6	311.8
Bangladesh			6	379.0	6	379.0
Bhutan			3	30.0	3	30.0
India	7	1,499.5	8	2,251.3	15	3,750.8
Nepal			3	103.2	3	103.2
Pakistan	1	100.0	6	884.8	7	984.8
Sri Lanka			2	72.0	2	72.0
Total	8	1,599.5	34	4,032.1	42	5,631.6
Europe and Central Asia						
Albania	3	45.6	1	33.7	4	79.3
Armenia			4	97.5	4	97.5
Azerbaijan	2	260.0			2	260.0
Bosnia and Herzegovina			3	39.4	3	39.4
Bulgaria	4	344.6			4	344.6
Croatia	4	522.1			4	522.1
Georgia			4	74.0	4	74.0
Kazakhstan	1	24.3			1	24.3
Kosovo			3	18.5	3	18.5
Kyrgyz Republic			3	36.0	3	36.0
Macedonia, former Yugoslav Republic of	3	70.0			3	70.0
Moldova			3	43.0	3	43.0
Montenegro			1	10.0	1	10.0
Poland	1	184.0			1	184.0
Romania	3	349.4			3	349.4

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2007, By Region and Country *(cont'd)*
(millions of dollars)

	IBRD loans		IDA loans		Total loan	
Region/country	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
Russian Federation	2	60.0			2	60.0
Serbia	5	167.4		20.0	5	187.4
Tajikistan			4	35.0	4	35.0
Turkey	3	1,158.3			3	1,158.3
Ukraine	1	154.5			1	154.5
Uzbekistan			1	15.0	1	15.0
Total	32	3,340.1	27	422.1	59	3,762.2
Latin America and the Caribbean						
Argentina	9	1,748.7			9	1,748.7
Bolivia			1	30.0	1	30.0
Brazil	7	284.8			7	284.8
Chile	2	41.7			2	41.7
Colombia	6	1,101.8			6	1,101.8
Dominica			1	1.4	1	1.4
Ecuador	3	111.0			3	111.0
Guatemala	3	242.3			3	242.3
Haiti			5	68.0	5	68.0
Honduras			2	39.0	2	39.0
Mexico	0	29.0			0	29.0
Nicaragua			2	42.0	2	42.0
OECS Countries			1	14.2	1	14.2
Panama	3	105.4			3	105.4
Paraguay	1	74.0			1	74.0
Peru	4	420.0			4	420.0
St. Lucia			1	5.3	1	5.3
Uruguay	5	194.6			5	194.6
Total	43	4,353.3	13	200.0	56	4,553.3
Middle East and North Africa						
Djibouti			0	2.0	0	2.0
Egypt, Arab Republic of	2	182.1			2	182.1
Iraq			2	164.0	2	164.0
Jordan	3	121.0			3	121.0
Morocco	3	300.0			3	300.0
Tunisia	2	88.8			2	88.8
Yemen, Republic of			3	50.0	3	50.0
Total	10	691.9	5	216.1	15	907.9
Overall Total	112	12,828.8	189	11,866.9	301	24,695.8

Annex 10

Canadian Contributions to World Bank Trust Funds

Beyond the financial resources that Canada provides to the Bank through capital subscriptions, IDA replenishments and multilateral debt relief, we also contribute to a number of the Bank's multi-donor trust funds.

The table below shows Canada's contributions over the past few years. These trust funds have been set up to mobilize donor resources to address key strategic development priorities at country level.

CIDA Disbursements Through World Bank Group Administered Trust Funds
(millions of dollars)

	2004–05	2005–06	2006–07	April 1–December 31, 2007	Total since FY04/05
	279.0	146.4	292.1	197.9	945.4

Key disbursements in FY06/07 and FY07/08 (until December 31, 2007) include:
(millions of dollars)

	FY06/07	FY07/08 (until December 31, 2007)
Afghanistan various	102.0	183.3
Ethiopia various	55.4	0.1
EFA-FTI	24.0	–
Tanzania PRSC	20.0	–
Caribbean Catastrophe Risk Insurance	20.0	–
Indonesia various	13.2	2.0
Vietnam Various	7.5	–
PanAfrica various	5.2	1.0
Senegal PDMAS	5.0	–
Iraq IRFFI TF	5.0	–

Note: Includes only contributions above $5 million.

The World Bank also acts as a financial administrator for a number of global initiatives, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), the Global Alliance for Vaccines and Immunization (GAVI Alliance), the Global Environment Facility (GEF), the Advance Market Commitment (AMC) and the Consultative Group on International Agricultural Research (CGIAR). The table below shows Canada's contributions to these initiatives.

Canadian Contributions to Global Initiatives administered by the World Bank

(millions of dollars)

	2001–02 to 2005–06	2006–07	2007–08	Total
CGIAR	$102.9	$17.8	$13.3	$134.0
AMC	–	–	$115.0	$115.0
GFATM	$278.4	$250.0	–	$528.4
GAVI	$182.0	$6.0	–	$188.0
GEF	$228.2	$9.2	$43.8	$281.2

Source: Canadian International Development Agency, February, 2008.

Annex 11

World Bank Procurement from Canada

Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2006

(millions of US dollars)

	IBRD	IDA	Total
	Amount	Amount	Amount
By Fiscal Year			
1997–98	82	32	114
1998–99	69	37	106
1999–00	73	22	95
2000–01	45	15	60
2001–02	48	16	64
2002–03	41	20	61
2003–04	41	30	71
2004–05[1]	56	35	91
2005–06[1]	24	14	38
2006–07[2]	28	12	40

[1] As of fiscal year 2005, data reflects goods and service contracts awarded and not payments.

[2] 2006–07 estimates.

Source: World Bank, 2007.

Annex 12

World Bank Borrowings in Canada

During calendar year 2007, the IBRD issued one bond denominated in Canadian dollars, the IBRD's C$850 million 4.30 per cent Global Bonds due December 15, 2012.